

# Assessing Pay Equity to Build and Sustain Value-Based Workplaces

Aimee Greeter, Principal  
Michael O'Malley, Principal

Originally published by the [American Association of Provider Compensation Professionals](#)



## OVERVIEW

Fairness is a universal value that we acquire early in life. Children are quick to point out the injustices they encounter in their lives with the oft-repeated expression, “That’s not fair!” Over time, our concept of fairness expands to the concept of equity, which translates individual experiences to those at the group identity level (such as men versus women). As adults, we have perceptions of what is equitable and what is not, including when it comes to compensation. When compensation is not perceived to be equitable, an emotional reaction may be elicited in response. Sometimes, this response is useful and other times, it can be destructive. How, then, do we effectively monitor, measure, and achieve pay equity in our health care organizations to encourage calm waters?

## WHY PAY EQUITY MATTERS

Health care is no exception to existing pay differentials between underrepresented groups and others. Within the health care industry, women earn 24% less than men (after correcting for age, education, and working time).<sup>i</sup> According to a recent review, female physicians, specifically, earn \$29,186 less than male physicians when correcting for other factors (the uncorrected difference is \$47,145, but that is largely due to the distribution of men and women among specialties).<sup>ii</sup> The same study found the starting salaries of female physicians are uniformly lower than their male counterparts and that the cumulative effects of gender differences on pay result in seven figures in lost income over their career.<sup>iii</sup>

SullivanCotter has conducted pay equity studies for physicians and APPs and has found differences similar to those cited in the study above. While those differences may not be statistically significant, they do tend to be disconcerting to those who find themselves on the low end of the compensation spectrum. So why, despite increasing awareness of the issue of pay equity and contemporary social pressures to correct it, do these disparities continue to exist?

We know that pay is impacted by a variety of factors, including:

- Hiring and selection regime
- Supporting staff resources provided
- Training and career opportunities
- Quality of leadership and mentoring
- How well performance is measured and managed

Some of these factors are more actively controlled than others, and some are more significantly influential to the outcome of pay inequity. Rarely is pay inequity an intentional choice; rather, it is the combination and output of varying factors and a product of influences that accumulate over time and may lie outside the

scope of any single observer, recognized only by those personally affected. In organizations in which there is a lack of equity, employees are more likely to reduce their work effort, demonstrate a reluctance to help their colleagues, take overt measures to sabotage work products of the broader organization and leave the organization. On the contrary, in organizations where equity exists, employees report higher job satisfaction, greater citizenship, higher productivity and an increased likelihood of staying with the organization. Thus, achieving equitable pay has significant impacts on the overall productivity and stability of the workforce, and the financial performance of the organization.<sup>iv</sup> To address this, organizations should periodically take an in-depth, quantitative look at pay practices, compensation programs, and overall earned compensation and to subsequently put systems in place that track compensation levels by underrepresented groups of employees versus others.

## DRIVING FORCES BEHIND PAY EQUITY STUDIES

One way to test the equity of a compensation program is by conducting a pay equity study. While recurrently scheduled analyses are best practice, there are other reasons to conduct a study, including:

- Specific precipitating event (such as legal action or a Department of Labor review)
- Mandatory reporting requirements (such as exists in specific states, including Illinois and California)
- General concerns about equity and other cultural values
- Unfavorable experiences in attracting and retaining members of under-represented groups
- Employee feedback (such as from engagement surveys or informal discussions)
- As an initiative from the Board of Directors
- Specific recommendations from an internal committee

Any one of these reasons is sufficient to undertake a pay equity study. Study requirements may apply to the entire organization or to specialized populations such as executives, physicians, nurses, or advanced practice providers. Pay equity studies can be completed for populations as broad as all employees, or as narrow as necessary (assuming a sufficient sample size exists).

## CONDUCTING THOROUGH PAY EQUITY STUDIES

Like any other statistical review, there is a defined process for completing a pay equity study to ensure it yields optimal benefit. This process standardly includes the following steps:

### 1. Define the scope

This process begins with a sound definition of the study problem and scope. In defining the Who, What, Where and When of the study:

The Who refers to the study population. Will it include physicians, advanced practice providers (APPs), executives, and/or general staff? The Who also includes which under-represented groups will be studied.

The What refers to the type of compensation to be considered within this review. Will it include base pay, variable pay, overtime pay, and/or on-call pay?

The Where helps further define the scope by determining if employees within certain geographic regions will be considered, or those within particular hospitals, or even particular departments within a single hospital.

Finally, the When determines the time period to be considered. Will the data align with the organization's fiscal year, calendar year, or other strategic timeframe?

## 2. Assemble the team

Assemble a cross-sectional team of stakeholders to aid in the collection of data, the execution of analyses and the interpretation of results. Common members of the pay equity review team include project sponsors (e.g., the head of a department) and individuals from Human Resources, Legal, Compensation and Information Services. Third-party facilitators may also be used to assist, particularly if pay equity studies are new to an organization.

## 3. Collect data

Data collection can be an onerous process, but precision and thoroughness are essential. A complete dataset often requires the demographics of individuals, work-related variables such as time in the current role, compensation, and productivity information. The project team is critical here since data frequently must be retrieved from various systems and owned by various departments. The team also frequently must be creative in conceiving of substitute measures when primary measures cannot be found or do not exist.

## 4. Conduct analyses

There are multiple ways to approach pay equity analyses. They differ in how they try to control for differences between groups that otherwise would yield a false result if they are not controlled. For example, if more men than women are employed at higher levels in an organization, the results will show that men in the organization earn more. However, the goal of an equity review is to create equivalencies between groups either statistically or through matched control procedures. Thus, there are different approaches to equating groups, e.g., gender, on all relevant characteristics, such as randomized controls, multiple regression, propensity scoring and instrumental regression. Determining which approach is best depends on the nature of the data.

As the analyses are being completed, a diligent, careful process is required. This includes consideration of multiple points of impact, such as:

- Sample size
- Linearity
- Outliers
- Specification
- Selection bias
- Missing values
- Repeated tests

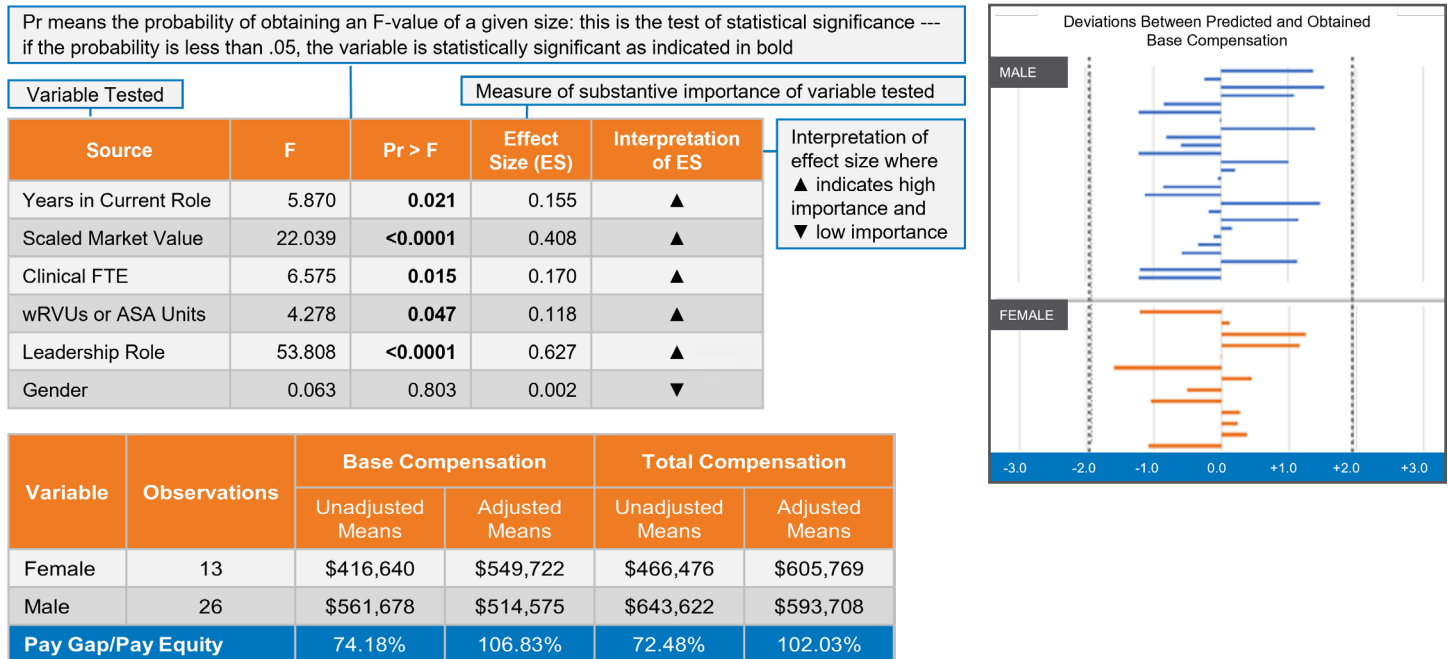
Obtaining the correct results involves incisive, collaborative questioning along with a robust understanding of the organization, compensation design and statistics.

## 5. Review and explanation of results

The following page shows the results of a pay equity study for a hypothetical organization (health system) and study population (physicians), using multiple correlations. This is a method that attempts to statistically control for group differences. The goal is to develop a model that best explains why people are paid what they are paid. The results underscore which variables best explain the reasons for employees' pay – why

people earn more or less. Finally, we can see the differences in compensation between groups with and without correcting for group differences (for example, in Years in the Current Role). In this example, the controls make a difference – which suggests men and women are, in fact, different on some of the variables in the analyses.

Figure 1. Typical output of a study of physicians in a health system



Although pay equity studies are centered on specific questions, when the process involves a comprehensive look at compensation, it can reveal patterns in the data of which you were not aware. As the process unfolds and the data becomes more familiar, frequently other questions arise. As one question is answered, more questions come to light. This is a normal part of research, including pay equity studies.

## 6. Develop final documentation

After the statistical methods are complete, it is important to document the draft results in written form, including a comprehensive report of the key findings, a technical appendix with details on the methods, and a series of recommendations as a result of this work effort. Additionally, presentations often must be produced that are appropriate for the audiences addressed.

## PRACTICAL APPLICATIONS OF PAY EQUITY STUDY RESULTS

After pay equity studies are completed and the initial results reviewed, organizations may recognize the opportunity for change, regardless of the results. In fact, determinations of pay equity do not imply that other HR programs (such as hiring and performance management) are unbiased. Organizations may choose to pursue a series of preventative actions to ensure problems do not persist or do not develop. And, if the pay equity study yields unfavorable results, various remediation actions may be warranted. Examples of these actions are detailed below.

### Prevention:

- Establish standards for hiring
- Monitor people’s development and career opportunities and progress

- Develop protocols regarding project/committee assignments
- Implement promotional policies
- Make use of mentors
- Have favorable work-family programs (including family leave policies)

#### Remediation:

- Redesign compensation plans
- Take corrective compensatory actions
- Implement new administrative policies
- Centrally monitor compensation across departments or institutions
- Conduct annual calibration sessions

### CONCLUSION

Verifying the fairness of your compensation program is an operational necessity and cultural imperative. The statistical analyses completed within pay equity studies can inform and elicit adjustments that should be made to drive toward equity. It is a requisite for ensuring a healthy, motivating environment and maintaining a desirable place to work. And, when conducted through the authority of an organization's legal counsel (the recommended approach), these analyses are protected through attorney-client privilege. This helps to limit the potential downstream impacts from having conducted the study, even in the face of adverse findings. While there are operational risks from "opening the door" to discussing pay equity, it has been our experience that they are outweighed by the benefits of a conclusive evaluation of fairness and the opportunity to make informed steps toward remediation (such as those detailed above) if differences do exist.

---

#### Sources:

- i Mahase, E. (2022). Pay gap. Women in healthcare sector earn 24% less than men. *BMJ*, v378, 1748
- ii Hoff, T. & Lee, D. R. (2021). The gender gap in medicine: A systematic review. *Health Care Management Review*, v46 (3), 37
- iii Hoff, T. & Lee, D. R. (2021). The gender gap in medicine: A systematic review. *Health Care Management Review*, v46 (3), 37
- iv Adams, J. S. (1963). "Toward an understanding of inequity". *Journal of Abnormal and Social Psychology*. 67 (5): 422–436

Compensation cannot be fair if we are unduly encumbering employees' ability to work to their full potential or valuing their activities less than the similar activities performed by others. If your organization is not currently conducting pay equity studies and you need help getting started, please reach out to us.

[Contact SullivanCotter](#)