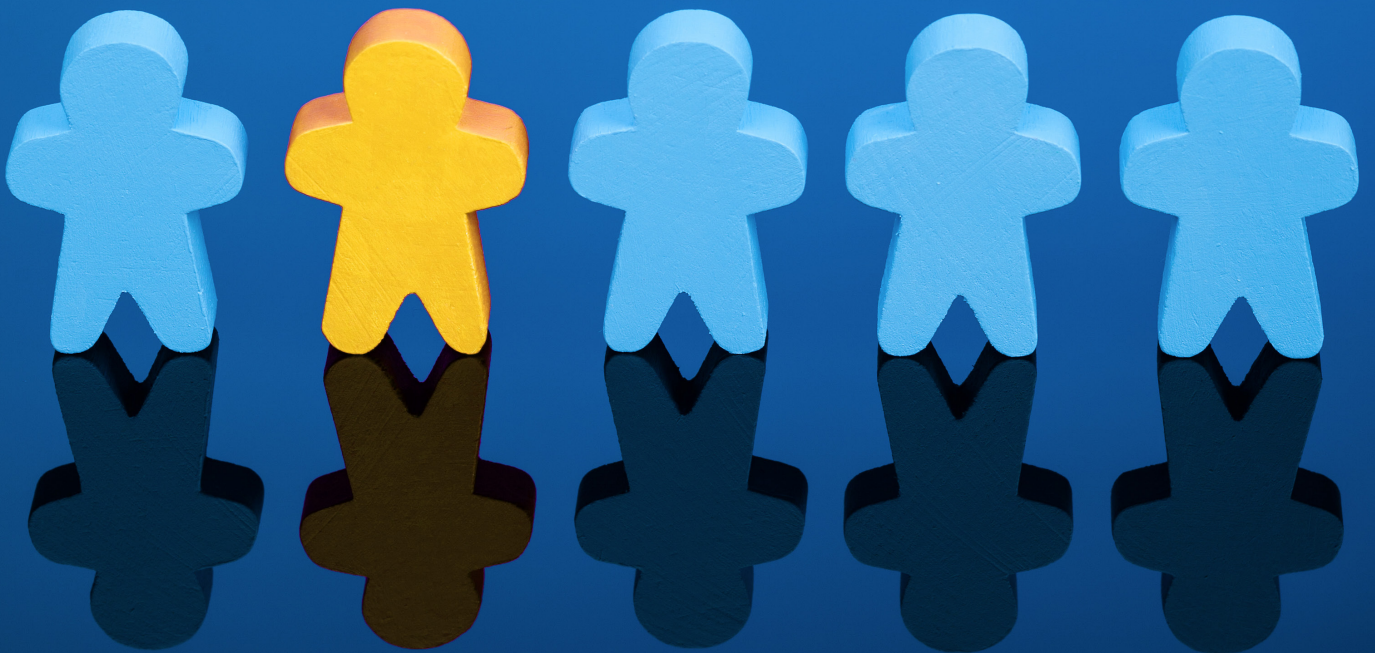


# Beneath the headlines

Dispelling the myths around gender pay equity



# #1

Aon Hewitt's remuneration database is the largest and most comprehensive in Australia.

The headline statistics on gender pay inequality are often so aggregated that they may, in fact, harm the cause they seek to promote.

It is easy to assume that what appears to be inequality can be attributed to other factors, underrepresentation of senior females and role choice for example, unless we delve beneath the headline averages. This is not to say that these factors aren't critical gender equality issues for workplaces or that they don't impact pay equity. They most certainly do. However they don't necessarily reflect a bias in the organisational *pay approach itself*.

Prior to researching the potential of pay disparity, nothing in our first-hand experience working with front line managers to establish pay recommendations, suggested that we would find an unexplained gender differential in pay. However, a review of Aon Hewitt's remuneration database<sup>1</sup> suggests otherwise. At both a market and organisational level, gender pay inequality is a very real issue. As the stewards of pay strategy within Australia's organisations, senior management, HR and remuneration professionals should have gender pay equity squarely on their agenda.

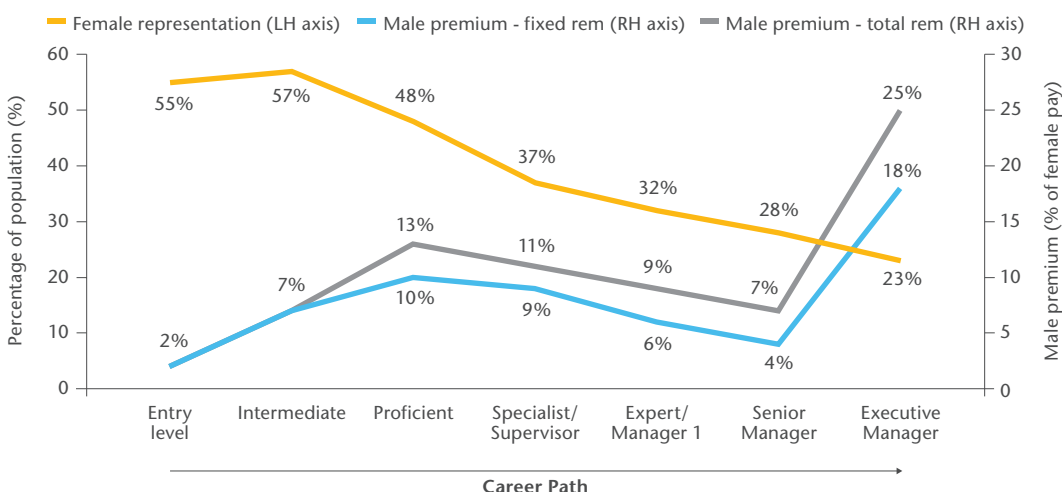
At both a market and organisational level, gender pay inequality is a very real issue.

### It's not just about seniority

It is well documented that females form an increasingly smaller part of the Australian workforce as organisational seniority increases. Females currently comprise only 9.7% of ASX200 executive managers and only seven Chief Executive Officer positions within those ranks are held by women.<sup>2</sup> It is also true that the pay gap, or what we will refer to in this report as the 'male premium'<sup>3</sup> is greatest for the most senior roles.

Aon Hewitt research proves that there is a market gender pay gap apparent at every career level.

However, the theory that average pay equity differentials are simply caused by more highly-paid executive men in the sample is inconsistent with our findings. Aon Hewitt research proves that there is a market gender pay gap apparent at every career level – that is, across the market women are paid less than men *at the same organisational level*. Interestingly, our research shows that the pay gap widens until reaching the proficient career level, and then narrows for early supervisory and management roles.



<sup>1</sup> Aon Hewitt's Australian General Industry Remuneration database contains 121,000 lines of survey data from over 500 organisations across most industry sectors.

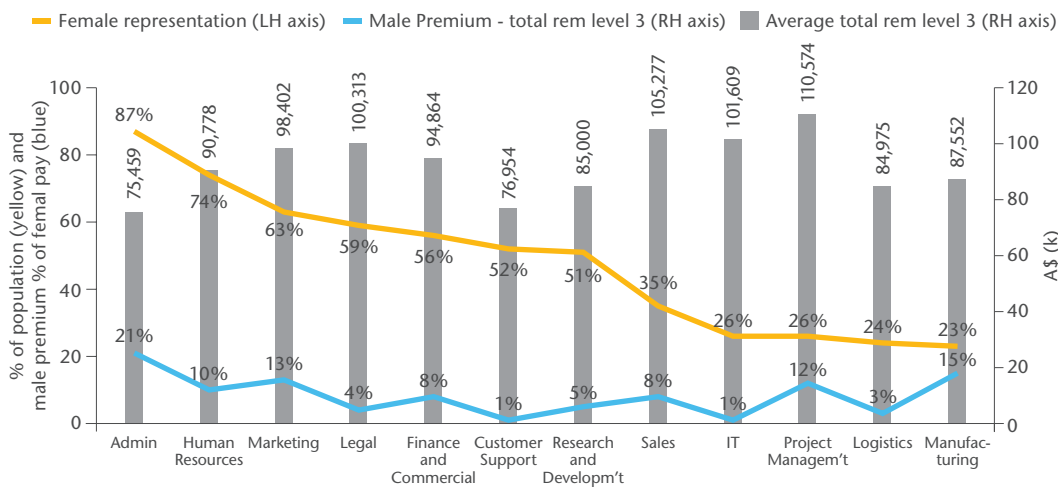
<sup>2</sup> Source: Australian Government, Equal Opportunity for Women in the Workplace Agency, 2012 *Australian Census of Women in Leadership Summary of Key Finding*, [http://www.wgea.gov.au/sites/default/files/2012\\_census\\_summary\\_tag.pdf](http://www.wgea.gov.au/sites/default/files/2012_census_summary_tag.pdf)

<sup>3</sup> The incremental percentage of female pay offered to males on average.

### It's not just about career choice

There are well documented cases of lower market rates of pay for job families with a heavily female-dominated workforce, such as in the caring professions. A typical conclusion drawn from these examples is that the market undervalues work more commonly performed by females. While this may be true in some sectors, Aon Hewitt data suggests that the case is less clear cut in the corporate sector.

The graph below shows average remuneration at a proficient level<sup>4</sup> across a range of functions, overlaid with female representation in that function, and the observable male premium for pay.



While career choice plays a role in pay equality, it seems that women are paid less than men in the same roles.

While the highest earning functions – sales, IT and project management – are male dominated, so too are some of the lower earning functions such as logistics and manufacturing. Further, some of the male dominated areas (IT and logistics) have very low gender pay differentials, in contrast with differentials of 10% or more for marketing and HR. Most surprisingly, there is currently a 21% pay differential between male and female human resources directors in the Australian market<sup>5</sup>. While career choice plays a role in pay equality, it seems that women are paid less than men *in the same roles*.

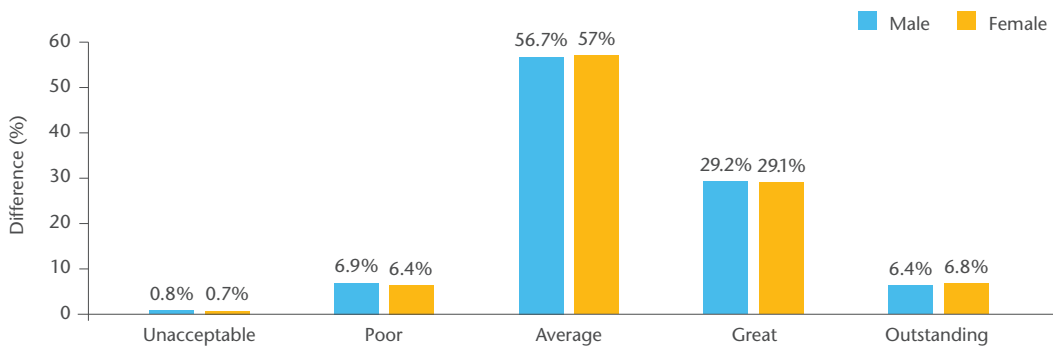
### It's not about performance

Given that a considerable and increasing portion of market pay is variable and linked to performance, it stands to reason that a gender bias in assessing performance might flow through to inequitable pay levels. As part of our research, we looked into market performance outcomes to gauge whether performance differentials are a contributing factor to pay gaps.

Aon Hewitt's data does not support this explanation. Across the market performance outcomes are remarkably similar for both genders as shown over the page – *females and males are recognised to perform the same*.

<sup>4</sup> Aon Hewitt Career level 3

<sup>5</sup> Source: Aon Hewitt General Industry Remuneration database – June 2013, based on average Total Remuneration Cost



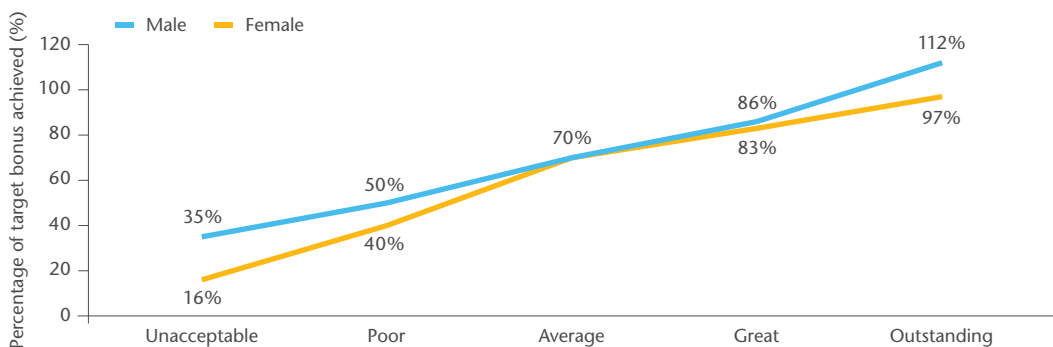
### It may be linked to expectations – manager and individual

Our database statistics do not necessarily mean that managers consciously take gender into account in setting pay. The existence of unconscious bias surrounding gender issues is well-supported by research. In the case of setting pay, we do know that managers are influenced by *an individual's expectation for pay* and by the likely *retention impact of remuneration decisions*. There is also much commentary about women's reluctance to make the same demands of their employer as their male counterparts – around career progression specifically, but presumably also pay. Is it therefore possible that women's lower expectations are resulting in unconsciously biased remuneration allocation? Our database provides two interesting insights on the matter:

- Considering Fixed Pay versus a market benchmark, we see a similar distribution in pay for females and males other than where pay significantly exceeds market levels. *Males are 1.7 times as likely as females to have a salary that is significantly above market peers.*

Pay position vs market	<70%	70%-90%	90%-100%	100%-110%	110%-130%	>130%
% of all males	3%	22%	23%	20%	21%	11%
% of all females	4%	23%	25%	21%	20%	7%

- Considering short-term incentive payouts versus targets, we see *strong correlation between outcomes for males and females at average performance levels*. However, *both particularly high performing and particularly low performing males are, across the market, achieving better outcomes than their female counterparts.*

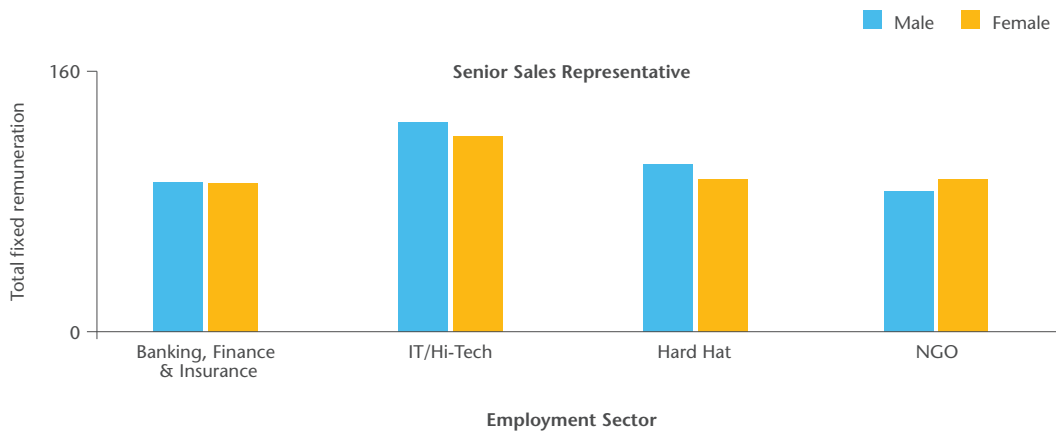


Is it possible that women's lower expectations are resulting in unconsciously biased remuneration allocation?

Both particularly high performing and particularly low performing males are, across the market, achieving better outcomes than their female counterparts.

## Industry counts

While our research regarding the impact of *what you do* on pay disparity is inconclusive, *where you do it* clearly matters. In the following example, we have considered a generic position across four industry selections.



Not only do absolute pay levels vary based on sector – the pay disparity observed across the industries is also different. These factors, combined with differing representation of females within each of the sectors<sup>6</sup>, will clearly impact aggregate market gender pay differentials. It is interesting to note though, that *despite normalising for both role and industry*, in many instances a gender pay gap persists.

## Closing the gap is unlikely to happen without intervention

An important factor to consider in gender pay equity is that remuneration review processes are cumulative, and often focus on increase amounts rather than absolute dollar outcomes. This year-on-year approach can perpetuate an existing gender gap.

To close the current 8% fixed remuneration gap at the fully proficient level, females would have to achieve an annual salary increase of *1.5 times that of males (in percentage terms) for at least five cycles*<sup>7</sup>. While high-performing, significantly under market females in our database achieved a fixed remuneration increase that was 1.7 times that for males last cycle<sup>8</sup>, there is no evidence of closing the gender gap more broadly<sup>9</sup>. Further, data for those new to roles suggests the market is not taking the opportunity of career break-points to re-base female remuneration. The gender pay disparity for those with less than one year tenure in a role is anywhere from 1 to 5 percentage points depending on sector according to the Aon Hewitt database.

<sup>6</sup> Female representation within the Aon Hewitt database as follows: Banking, Finance and Insurance 61%, IT/Hi-Tech 28%, Hard Hat 22%, Non-Government Organisation 74%

<sup>7</sup> Assumes male salaries progress at the current market rate (same incumbent median movement for males) of 3.3%. Source: Aon Hewitt General Industry Remuneration Database – June 2013

<sup>8</sup> Salary increase for Outstanding performers with fixed remuneration more than 15% below market median. Males = 3.8%, Females = 6.5%

<sup>9</sup> Median same incumbent movement to June 2013: Males = 3.3%, Females = 3.5%. Average same incumbent movement to June 2013: Males = 4.4%, Females = 4.4%. Source: Aon Hewitt General Industry Remuneration database – June 2013

## Further research required

Our research to date focuses on *market* gender pay differentials. For instance, individual companies are unlikely to have multiple human resource directors so the gender pay disparity we see for that role is more systemic than organisationally driven. It should be noted that a market gender pay differential does not necessarily point to issues within organisations themselves – as the research shows, the pay patterns for different industries play a notable role in market gender pay studies. However, we cannot rule out the existence of bias. While more thorough research is required, a preliminary review of our database *within organisation* would point to a gender-aligned pay disparity (in favour of males or females) in half to three-quarters of organisations. Our data strongly suggests that gender pay inequity – same level, same role, same performance – is real across the Australian market.

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## Recommendation

Gender pay equity is a complex issue. It is critical to fully understand the factors affecting your organisation. We recommend that organisations should seek to understand pay differentials from as many different perspectives as possible:

- 1. Understand your data** – what are the gender differences in fixed remuneration and bonus payments? Do you see consistent patterns across job families, seniority levels and geographies? Consider distribution of pay outcomes as averages can mask key trends.
- 2. Assess root causes** – what role do female representation, tenure and career breaks play? Is performance adequately assessed? Have your reward structures evolved to effectively consider flexible work schedules? How do your managers factor in individual expectations when setting pay? Establish reporting protocols to reduce the potential for unconscious bias in people programs.
- 3. Look beyond your organisation** – does internal job evaluation align to external market pay rates? Does benchmarking solely within your industry result in gender-bias? Knowing the industry and market experience of gender pay differentials can assist in interpreting your outcomes.

In short, organisations should seek to go deeper than headline numbers and take a detailed look at gender pay equity in the context of their workplace and existing pay strategies.

## Make a commitment to gender equality in your workplace

Gender equality in the workplace is a key issue facing modern employers. Aon Hewitt helps organisations develop and implement gender pay equity studies. Talk to one of our expert consultants about our standard and customised offerings. Find out where you sit and be a market leader in your commitment to gender equality.

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