

Pay equity: A critical step towards workplace equality

How Mercer can support companies in preparing for the new EU Directive on Equal Pay and Pay Transparency



welcome to brighter

The new EU directive on Equal Pay and Pay Transparency aims to provide a legal framework for identifying unexplained pay inequalities, and give workers the right to access relevant pay information.

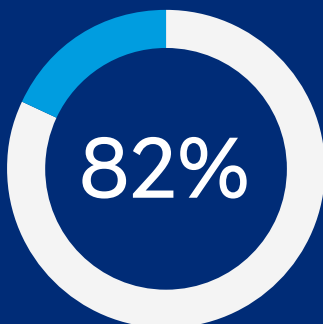
By setting minimum guidelines for transparency, the EU Directive helps to set equal pay and pay transparency standards for the companies who operate across different jurisdictions in Europe.

Many of Mercer's multinational clients are focused on establishing regional or global consistency when it comes to pay equity, supporting an inclusive employee value proposition of being a fair employer — despite the challenges of differences in disclosure across the world.

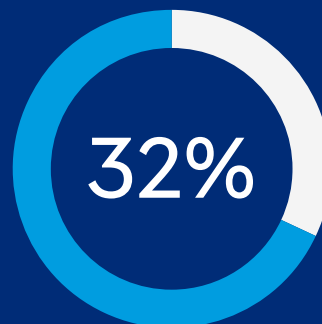
Mercer has been at the forefront of diversity, equity and inclusion work for more than 25 years, helping hundreds of pioneering organisations to address the effects and sources of gender disparities in the workplace, and performing pay equity analyses for more than a 100 companies per year. Our research shows that formal pay equity processes drive gender diversity and support pay transparency. For the greatest impact, pay equity analyses should rely on statistical analysis, identify process owners and include formal remediation protocols. Far too few organisations have such processes — making this the most significant area of opportunity to enhance workplace equality.



Having different requirements country to country, or union to union, creates an inefficient implementation process and may hinder large companies' attempts to pursue pay equity effectively across multiple countries.



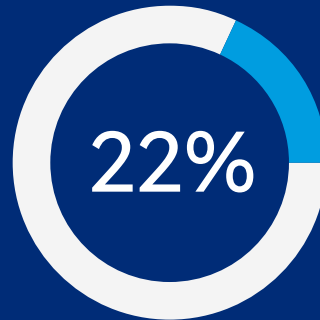
of companies say that they address pay equity as part of their compensation strategy.



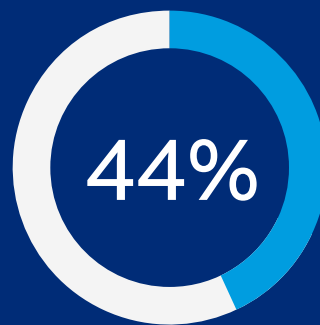
have a formalised process for remediating inequities.

Many companies across EU member states are already focusing on equal pay and pay transparency. A Mercer survey from 2022 showed that 22% of companies across the EU viewed pay transparency as a key issue — and 44% are planning to increase transparency in 2023.

Mercer's research shows that organisations that are close to gender parity (across all levels) have an annual pay equity process and ensure pay gaps do not recur. Moreover, that same research shows that the strongest driver of balanced gender representation at the top management level is the existence of pay equity processes within the organisation. Put simply, if there is one thing companies should prioritise in order to drive balanced gender representation, it's pay equity.



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Mercer's approach to pay equity:



Tailored to your business reality

Our modelling-based approach allows for isolating the part of the pay gap that is caused by legitimate, business-related factors and the part that is not.



Minimises potential biases

Grounded entirely in employers' business practices to eliminate the possibility of introducing potential biases brought in by incomplete or substandard analyses.



Provides company-wide evaluation

Our approach allows for company-wide evaluation at the global/country level, covering every employee.



Identifies pockets of risk

And identifies pockets of risk down to the regional, country, team and even the individual level.



Develop targeted remediation strategies

We develop and test remediation strategies to allow for differentiated approaches to implementation and efficient use of budget.



Online implementation tool

We provide an online implementation tool for further exploration of pay gaps and development of remediation budget and strategies.

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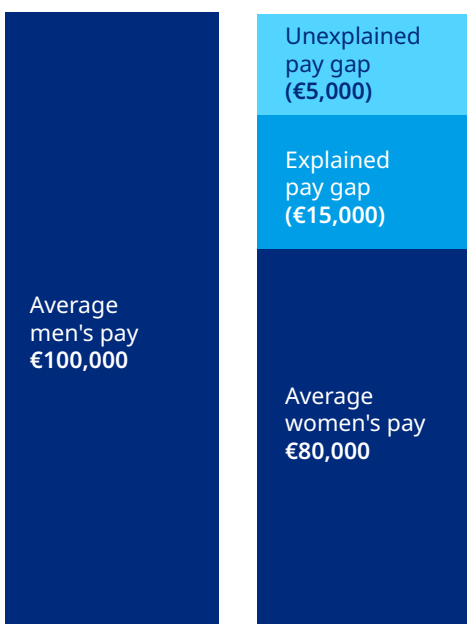
The evolving legislative landscape and increasing demand for accountability from activist shareholder groups are pressing many companies to accelerate their progress towards an equitable workplace.

The growing commitment to sustainability and corporate social responsibility is also helping companies to recognise that achieving gender pay equity and equality in work opportunities is good for business. More and more organisations are proactively choosing to be publicly transparent in their efforts and progress towards pay equity and diverse representation. The World Economic Forum's Good Work Framework includes objectives around ensuring equal pay and equitable work conditions, as well as building an inclusive culture.

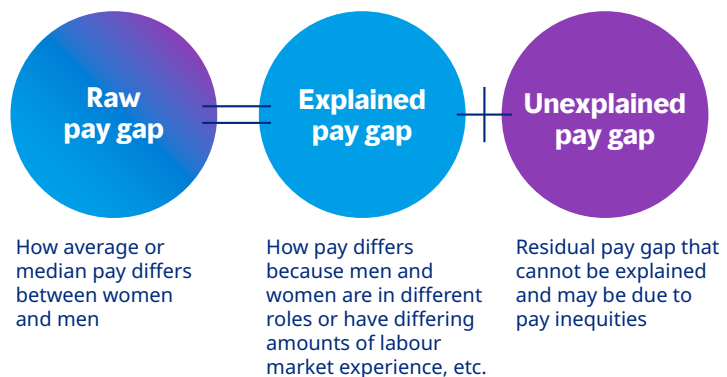


The primary objective of the pay equity analysis is to measure an organisation's unexplained pay gap and close it where appropriate.

What do we mean by pay equity?



Raw pay gap (€20,000 or 20%) or "gender pay gap" a.k.a. "women earn 80 cents for every dollar men earn"
In this example, the raw pay gap between men and women is driven mainly by the explained pay gap (€15,000), with a smaller portion (€5,000) left unexplained.





The EU directive is especially helpful in distinguishing between pay gaps brought about through potential biases in implementing pay policies (“unexplained” pay gaps) and gaps resulting from differing levels of accumulated experience skills and roles, for example. The latter can be traced to poorer access to career opportunities for women when compared with men. In our experience, the two sources of pay gaps are driven by different phenomena and, as a result, require very different mechanisms for assessment and remediation.

Measuring and addressing the “unexplained” pay gaps is the most important first step but should not be the only long-term goal. Focusing solely on pay transparency and equal pay without equal access to career opportunities does not go

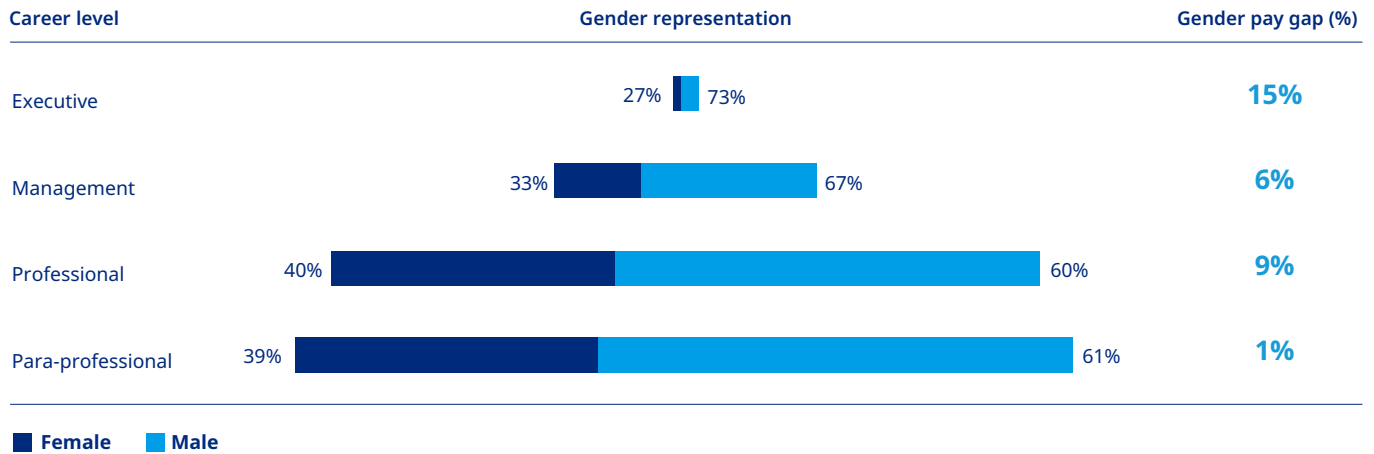
far enough. As companies make progress towards eliminating the unexplained pay gap, they must also try to remove underlying impediments to career advancement, which sustain persistently high pay differences for women. To that end, they should focus on improving representation of women in higher-level roles.

Our research shows that bias in the recruiting processes, talent reviews and promotions, as well as limited access to strategic, high-growth roles in organisations, are all factors that impede female progress into higher level, better-paid jobs. As organisations work towards equal representation of women in management, they should also look further down the hierarchy, ensuring equal access for women to the roles that are more likely to lead to higher-paid senior management roles.



Focusing solely on pay transparency and equal pay without equal access to career opportunities does not go far enough.

EU countries average gender representation 2022 Mercer European Total Remuneration Surveys



When looking at the representation for over 10,000 European organisations who participated in our 2022 European Total Remuneration Surveys, we see there is an overall 38%/62% between women and men.

The data indicates, however, that the higher the career level, the fewer women are represented, with only 33% of women at management and 27% of women at executive levels, respectively. Compared to data in previous years, we do begin to see an increase in women's representation in management and executive levels, which is promising. When looking at pay gaps, we see that average pay gaps increase as we go up the organization from only 1% at the para-professional level to up to 15% at the executive level.

As companies start preparing for the EU Directive, we propose that they consider embedding workplace equity on par with pay equity and increased transparency.

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About Mercer

Mercer provides insights, advice and technology-driven solutions to help build brighter futures for our clients, colleagues and communities. Together, we are redefining the world of work, reshaping retirement and investment outcomes, and unlocking real health and well-being. Mercer's more than 25,000 employees are based in 44 countries, and the firm operates in over 130 countries.

Mercer is a business of [Marsh McLennan](#) (NYSE: MMC), the world's leading professional services firm in the areas of risk, strategy and people, with 85,000 colleagues and annual revenue of over \$20 billion. Through its market-leading businesses, including Marsh, Guy Carpenter and Oliver Wyman, Marsh McLennan helps clients navigate an increasingly dynamic and complex environment.

Marsh McLennan is in the EU Transparency Register: 117683115792-20

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