



Pay Equity Analysis: Review, Remediate, and Prevent



With the enactment of laws governing gender and ethnicity pay equity and shareholder demands related to Environmental, Social and Governance (“ESG”), companies are performing pay equity analyses to understand the impact and effect of their current HR policies and programs. Such analyses can also: identify potential compliance and regulatory risk, provide the Board of Directors with an understanding of the current state, and inform other diversity, equity, and inclusion (“DE&I”) initiatives.

Current Landscape

Evaluating compliance with fair and equitable pay practices requires detailed analysis of a company’s workforce and compensation policies. While many national, regional, and industry-level statistics suggest a continuing existence of gender and ethnicity pay gaps, understanding the reasons for such gaps (e.g., differences in job type, education level or performance, or discrimination based on employee identity) requires the combination of statistical analysis, compensation analysis, and labor economics, all tailored to each company’s particular situation.



Regulatory Reasons

Laws have been enacted across 49 states prohibiting wage discrimination based on sex and gender, with minor modifications to existing equal pay protections. Several states (such as California, Colorado, Illinois, Maryland, Massachusetts, New Jersey, New York, Oregon, and Washington) have passed, or are in the process of passing, strict legislation to address any gender or ethnicity-based wage gaps that may exist in these states. These laws increase pay transparency and lower the threshold for an employee to bring an equal pay lawsuit against an employer. Any company failing to meet the requirements of these laws may face financial penalties and reputational risks. Therefore, it is important to determine if any identified pay differentials are due to permitted varying factors, such as seniority, performance, etc., or if remediation steps are necessary.

There has also been increased scrutiny from federal agencies, including the introduction of the White House Gender Policy Council and the reintroduction of the Paycheck Fairness Act, which would require the OFCCP to collect compensation data from federal contractors to evaluate the pay practices of at least half of all non-construction contractors each year.



ESG and DE&I Considerations

In addition to these current or potential legislation, more employees and external stakeholders are demanding companies to disclose an ESG strategy, including how human capital is managed and related supporting initiatives. For example, the SEC adopted new disclosure rules for public companies related to sharing human capital management information. In addition, pay equity continues to be a central part of discussions around DE&I, and is being shared both internally and externally, and even incorporated into executive incentive programs. Many companies are focusing their efforts on how this impacts the war for talent and is part of their value proposition for employees that differentiates certain potential employers from others.

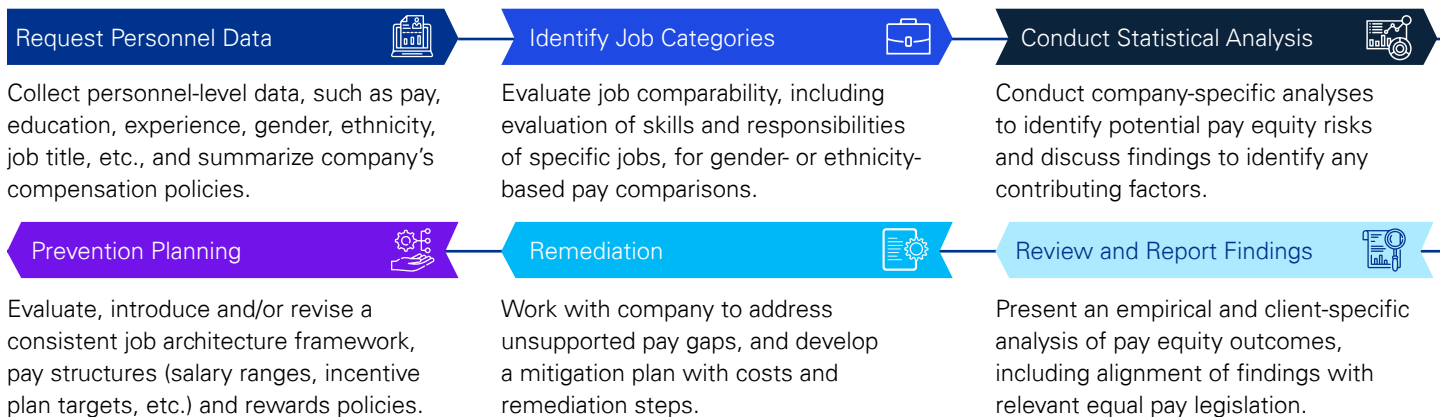


Associated Corporate Strategic Initiatives

In addition to identifying risks in existing structures, our approach to conducting Pay Equity Analysis can be used by companies to provide additional clarification across a variety of milestones including IPO planning, M&A due diligence, and ESG transformation.

Our Approach

KPMG has substantial experience analyzing human capital data and assisting companies in evaluating their compliance with existing laws and regulations. Our professionals are able to provide a comprehensive statistical review and assessment of a company's compensation practices. In addition, KPMG has the capability to develop alternative approaches to remediate any potential gaps or concerns. Our pay equity analysis provides organizations with the data analysis insights and human capital strategies required to assess and remediate compliance risk. The following illustrates the key steps included in our pay equity analysis approach:



Employees, shareholders, proxy advisory firms, and institutional investors will continue to take a greater role in accessing human capital management and challenging companies that “appear” to have pay imbalances. The ability to avoid gender- or ethnicity-related pay equity gaps will have significant impacts on a company's achievement of its ESG strategy, external brand credibility, employee retention, and board confidence. Our pay equity analysis provides Chief Human Resource Officers and related C-class members with a clear view of where the company stands on these issues and how to develop a transparent path forward.

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