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Leveraging Compensation: Why Pay Equity Is Key to a High-Performing Workforce

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Despite challenges, fair compensation remains critical to talent attraction and retention.

Discussions about salary are no longer taboo. In the current business landscape, an environment characterized by pay transparency laws and calls for equitable pay, employees openly disclose salaries to shift the power of negotiation. These conversations, while productive, have unearthed new levels of dissatisfaction—[Gartner](#) reports only 32% of workers believe they're receiving fair pay.

Compensation is vital to talent attraction and retention today. High pay has reemerged as the [most important job quality](#) for workers in 2023, ranking above job security, culture, and even flexibility. Employees are increasingly evaluating how their salaries measure up to their market-validated value—and they won't hesitate to seek alternative opportunities when perceived inequities arise. In fact, [Pew Research Center](#) identified low pay as the most significant factor in the [Great Resignation](#).

Demand for fair compensation—a concept that has proven difficult to define—will only escalate in the wake of rising inflation rates and [imminent recession concerns](#). Companies must recognize the importance of an effective compensation strategy when investing in their most valuable resource: their employees.

How Is Compensation Calculated?

It's unsurprising compensation historically favored the interests of employers. Salary ranges are established long before candidates enter the hiring funnel, predominantly shaped by internal factors and market conditions. In addition to considering their own budgets and business priorities, employers may consider data from relevant pay studies, the availability of similar jobs and candidates, and the requirements of the role.

This market analysis safeguards the company. When employers set a salary range based on these factors, they avoid overspending on their human resources (with future promotions and raises in mind) while staying competitive in their market. Flexibility is also ensured. After evaluating candidates, companies can extend offers across their salary range according to the applicant's experience, skills, and similar factors to maximize the value of investment.

In contrast, the needs of employees are rarely explored. Soaring cost of living—a regular topic of conversation amidst abnormally high inflation rates—remains an afterthought for

organizations that view talent from a profit-driven perspective.

But the disconnect between compensation and market reality for new hires is only one side of the coin. Pressured by heated competition for top talent, companies have raised the average offer [9% higher](#) than usual. A deeper issue becomes clear when examining compensation across organizations. As employees continue their tenure, disparities are exacerbated, dissatisfaction rises, and—without purposeful intervention from employers—risk of churn increases.

The Disconnect Between Compensation and Market Reality

For current employees, compensation reevaluations are seldom performed with the same level of strategic thought lent to new talent. Performance reviews, rather than market analyses, are the standard for determining salary raises for existing talent. The result is measurable. Between April 2021 and March 2022, [Pew Research Center](#) found workers who changed employers received a median 9.7% increase in real earnings. Those who stayed lost 1.7%.

This imbalance leads to a phenomenon called pay compression. New hires and tenured employees begin to receive similar levels of compensation despite significant differences in skills and experience, which can quickly embitter more established members of your workforce. Pay compression demonstrates to existing workers that business leaders are prioritizing talent attraction over retention—and their dedication to the company won't be met with the same loyalty.

As employee awareness of pay inequity grows, companies must close the gap or risk long-term retention issues.

How Compensation Packages Affect Attraction and Retention

Initially, turnover may appear to be the greatest consequence of compensation discrepancies. However, the growing prominence of social media and platforms like Glassdoor, Blind, and Indeed—all of which encourage transparency about salaries and benefits—has turned internal compensation into a reputational concern. Significant pay inequity can be a detriment to the employer brand and, therefore, long-term talent attraction.

Equitable pay, on the other hand, can drive talent attraction and retention. Job seekers are becoming [more ethically driven](#), seeking organizations with aligned values, which increases

the attractiveness of companies dedicated to fair working conditions. Once candidates are hired, [Harvard Business Review](#) reports pay equity can boost employee engagement, productivity, and innovation.

The findings are clear: Pay equity motivates skilled talent. Companies that build compensation packages according to fair market value—for both new and existing employees—can benefit from a high-morale workplace with quality applicants and strong retention.

Reducing the Disconnect When Determining Salary for Employees

Calibrating internal compensation to the market reality requires a careful, consistent strategy. Companies must establish and follow through with thorough processes when determining salaries for employees, both new and existing.

For many leading insurers, this has meant embracing new initiatives to improve pay equity—not only for current employees, but also with diversity and inclusion practices in mind. For instance, [CSAA Insurance Group](#) and [MetLife](#) conduct pay equity audits to ensure employees get equal pay for the same job, regardless of gender, race, or ethnicity. [State Farm](#) implemented a D&I Governance Council to encourage equitable business practices, while also offering inclusion-focused learning opportunities for recruiters and leaders. By taking the initiative to lessen [gender pay gaps](#), racial pay gaps, and other internal inequities, companies can simultaneously reduce pay compression and increase employee satisfaction.

Remote companies face additional challenges when crafting compensation strategies. On dispersed teams, the effectiveness of location-based pay must be considered. While some businesses may adjust salaries based on location—which maximizes cost-effectiveness and allows for equal salary-to-cost-of-living ratios for similar employees—some workers may view this as an unfair pay practice. Those people living in affordable locations might even feel penalized.

The ideal solution may vary from company to company, but deep research and strong transparency will always be key to building effective compensation strategies and nurturing a satisfied workforce. A [recent study](#) proved employees are 65% less likely to leave highly transparent companies than non-transparent organizations. When business leaders are evidently committed to balancing corporate goals and employee needs when determining compensation, top talent will come and stay.

What strategies will your company employ to shift toward highly equitable pay?