

## Learning Objectives

When you finish studying this chapter, you should be able to:

- E-1.** Explain the issues associated with a possible increase to the federal minimum wage rate.
- E-2.** Summarize the trends in performance appraisal and the relationship to compensation practices.
- E-3.** Describe the compensation–productivity gap issue.
- E-4.** Discuss the gender pay gap.
- E-5.** Explain the issue of pay transparency.

## ★ CHAPTER WARM-UP!

If your professor has assigned this, go to the Assignments section of [www.pearson.com/mylab/management](http://www.pearson.com/mylab/management) to complete the Chapter Warm-Up! and see what you already know. After reading the chapter, you'll have a chance to take the Chapter Quiz! and see what you've learned.

Thus far in *Strategic Compensation*, we have considered a story about the fundamentals of employee compensation and benefits programs and the building blocks and structural elements that make them. The book's approach to studying compensation arms professionals with the knowledge to make compensation decisions more effectively that fit well with companies' competitive advantages. There is much more to consider besides the fundamentals. In this epilogue, we will briefly examine five key issues among many more that have created persistent challenges for compensation and HR professionals. These issues have influenced and will continue to influence the story about compensation system design and practice. How these issues will *ultimately* change compensation strategy and practices remains to be seen.

- Possible increases to the federal minimum wage rate
- Performance appraisal trends
- Compensation–productivity gap
- Gender pay gap
- Pay transparency



## POSSIBLE INCREASE TO THE FEDERAL MINIMUM WAGE RATE

In Chapter 2, we described the three central provisions of the Fair Labor Standards Act: minimum wage, overtime pay, and child labor. Over the years, many public campaigns have called for increasing the federal minimum wage rate. There have been at least as many public campaigns advocating for maintaining the status quo. We have watched them play out on the political stage in Washington D.C., and within states and cities across the United States.

The federal hourly minimum wage rate (\$7.25) has remained the same since 2009; however, we learned in Chapter 2 that many states and the District of Columbia have higher minimum wage rates than the federal level. Many recent efforts within states such as New York and in cities such as Chicago have led to substantial rises in those areas' minimum wage rates. The New York City rate rose to \$15 at the end of 2018 and by 2021, the state rate will match New York City's current level.

Within some states, pushes for higher local minimum wage rates have taken hold. For example, in Los Angeles, unions successfully lobbied for a minimum wage rate for hotel workers—the lowest paid in the city—to \$15.37 in 2017. Concerns about layoffs are evident. However, one study found municipalities with higher pay did not suffer job losses among low-wage restaurant workers.<sup>1</sup> This study also found that restaurants often instituted modest price increases to avoid layoffs. Further, the study showed that higher wages often resulted in lower turnover because of higher wages.

Not all economists believe that legislating a higher minimum wage will be harmless to the economy. Many argue that increasing the minimum wage will have negative ripple effects throughout the U.S. economy. These arguments are based on the economic principles of supply and demand. In this context, raising the minimum wage could lead to increases in the price of goods and services as companies try to offset higher labor costs. As the prices of goods and services increase, consumers are more likely to buy less. In turn, reduced demand for goods and services stand to cut into profits, which may lead to cost reductions in the form of layoffs rather than further price increases.

Much scholarly research supports this conclusion. An exhaustive review of recent research concluded that approximately 85 percent of minimum wage studies provide strong evidence of negative employment effects resulting from minimum wage laws.<sup>2</sup> However, a study by the Congressional Budget Office indicates mixed outcomes. On one hand, an increase in the minimum wage rate to \$10.10 would likely lead to the loss of 500,000 low-skilled jobs. On the other hand, raising the minimum wage would raise pay of nearly 1 million workers to above the federal poverty levels.<sup>3</sup> Some of the loss in labor would be offset by lower cost automation. In the fast food industry, for example, labor-cost saving alternatives include online ordering and touch-screen kiosks.

Beyond legislation, many retailers, as we discussed in Chapter 2, have chosen to raise the minimum starting wage rate. As noted there, large retailers are finding it increasingly more difficult to hire well-qualified workers at lower pay rates, particularly since the unemployment rate has declined. For instance, retailer Target announced that it would raise the pay for all its U.S. employees to at least \$11 per hour, rising to \$15 per hour by 2020.<sup>4</sup> Coupled with higher starting pay rates, others are offering bonuses and paid family leave.

Notwithstanding these broader dynamics, compensation professionals face the challenge of managing pay inequities between a company's employees who are distributed across municipality or state lines where minimum wage rates differ. In addition, rising minimum wage rates stand to compress pay structures that include minimum wage jobs. Compression in this context occurs when a higher minimum wage rate boosts the pay range minimum rate. Unless all the pay rates are increased commensurately, the reduced pay differences effectively understate the relative value of higher paying jobs, creating opportunities for more highly paid employees to feel pay inequity.

**E-1.** Explain the issues associated with a possible increase to the federal minimum wage rate.



Compensation professionals also face the challenge of planning budgets. Dozens of states are considering possible increases to their minimum wage rates. Political debates, business and labor lobbying efforts, and politicians' interest in boosting re-election chances create uncertainty about whether minimum wage rates will increase, and, if increased, by what amount.

Finally, increases in the minimum wage force companies to reconsider its total compensation offerings. Coupled with higher starting pay rates, Wal-Mart offered seniority-based cash bonuses and now provides paid family leave. It is likely that many smaller companies or companies of any size that are losing ground, will not follow Wal-Mart's or Target's initiatives. Higher compensation costs, in the short-term at least, could further jeopardize financial viability. Alternatively, choosing to increase starting pay rates does not necessarily lead to higher total compensation budgets. For example, a company could choose to offset the cost of a higher minimum wage by eliminating one or more benefits that employees do not fully utilize.

## TRENDS IN PERFORMANCE APPRAISAL

**E-2.** Summarize the trends in performance appraisal and the relationship to compensation practices.

In recent years, many HR professionals, business executives, and employees have questioned the value of traditional annual performance appraisal methods. A survey by Deloitte University revealed that 78 percent of HR professionals said that performance management is important or very important.<sup>5</sup> However, only eight percent of the respondents stated that their performance management process drove business results.<sup>6</sup> Some firms have transitioned to ongoing reviews that entail more frequent, developmental feedback, often making pay raise and promotion decisions separately. For instance, Kris Duggan, CEO of the information technology company BetterWorks maintains, "When evaluating who gets promotions, raises, and bonuses, it has to be done in a more subjective manner, taking into account the competitive rate for the market, the amount of time since the last raise, what sorts of customer or internal relationships have been developed, and how well the employee is executing on his or her objectives."<sup>7</sup>

### FYI

A survey of more than 10,000 companies revealed that 71 percent are re-evaluating current performance appraisal practices, upgrading them, or have already updated them during the previous three years.<sup>8</sup>

By September 2015, 51 large firms transitioned to systems without ratings.<sup>9</sup> Many more are contemplating the same. Several other firms have modified their performance appraisal methods. General Electric (GE), once known for using forced ranking systems, stopped using them. At GE, employees who were rated in the bottom 10 percent of the performance distribution were either encouraged to leave or fired. Instead, the company now expects 200,000 salaried employees and managers to share frequent feedback via a mobile app called PD@GE.<sup>10</sup> Janice Semper, a GE human resource executive, maintained that eliminating ratings "led to more meaningful, richer conversations that were not getting distracted by . . . a label."<sup>11</sup> Goldman Sachs Group Inc. has taken the rating less approach even further by providing real-time feedback to employees.<sup>12</sup>

Adobe Systems had used a forced ranking system for many years until 2012.<sup>13</sup> The company estimated that managers spent a total of 80,000 hours conducting annual reviews.<sup>14</sup> Nowadays, the company provides extensive training to educate employees and managers about how to conduct more frequent "check-in" meetings. Donna Morris, senior vice president of human resources, described check-ins as " . . . a 180 [-degree turn] in terms of giving people the material they need to improve their performance and change course."<sup>15</sup> Morris added: "It completely changes how employees feel about their jobs and opportunities. Feedback is now viewed as a gift." Adobe also deemed the new approach as successful based on an analysis of involuntary and voluntary turnover. Adobe saw a 30 percent increase in the number of employees who left the company voluntarily and a 50 percent increase in the number of employees who left involuntarily.<sup>16</sup>



Some companies recognize the value of frequent feedback and elements of a rating system. For instance, IBM uses technology to facilitate more frequent performance reviews. IBM uses the Checkpoint app to set short-term goals and managers provide quarterly feedback on their progress. For the ratings portion, managers evaluate every employee on five criteria—business results, impact on client success, innovation, personal responsibility to others, and skills. Diane Gherson, chief human resource officer at IBM, said: “In the old system, there was one score. People [got] sort of obsessed by that.”<sup>17</sup> In addition, she spoke highly of the five-factor rating: “It leads to a much richer, more balanced discussion.”

Other companies making changes encourage employees to seek feedback. For example, J.P. Morgan Chase & Co. offers feedback programs that permit employees to request mini interviews following the completion of a project.<sup>18</sup> Employees may interview either with their boss or colleagues.

Despite some companies’ shifts away from traditional performance appraisal methods, these practices are far from extinction. One survey revealed that roughly 90 percent of firms worldwide use performance ratings. Many of the companies use both qualitative and quantitative (performance ratings) approaches. In addition, these firms rely on ratings as a factor in pay raise decisions.<sup>19</sup> For example, Facebook utilizes a formula to limit opinions in determining pay raise amounts.<sup>20</sup> This process involves a formula, so managers have no discretion in compensation decisions. The goal is for managers to focus on what they can specifically measure and allows the company to manage pay using compensation expertise.

There are many reasons that companies maintain the status quo. Perhaps most noteworthy is the lack of executive-level support for change. For example, Intel Corporation executives were worried that sacrificing ratings would draw healthy tension out of a workplace.<sup>21</sup> In addition, others were concerned that managers may not possess sufficient skills to use performance discussions effectively. There is merit to this concern. In some cases, managers displayed difficulties explaining job performance to employees as well as clearly describing specific steps for improvement.<sup>22</sup> Perhaps managers have become accustomed to using traditional ratings. Without them, they may have difficulty framing the discussion.<sup>23</sup> At Facebook, a participant of a focus group assembled to assess the use of performance ratings characterized their use as a punctuation mark because they are well-defined.<sup>24</sup> Ratings better enable managers to quantify pay increase differences.

## THE COMPENSATION-PRODUCTIVITY GAP

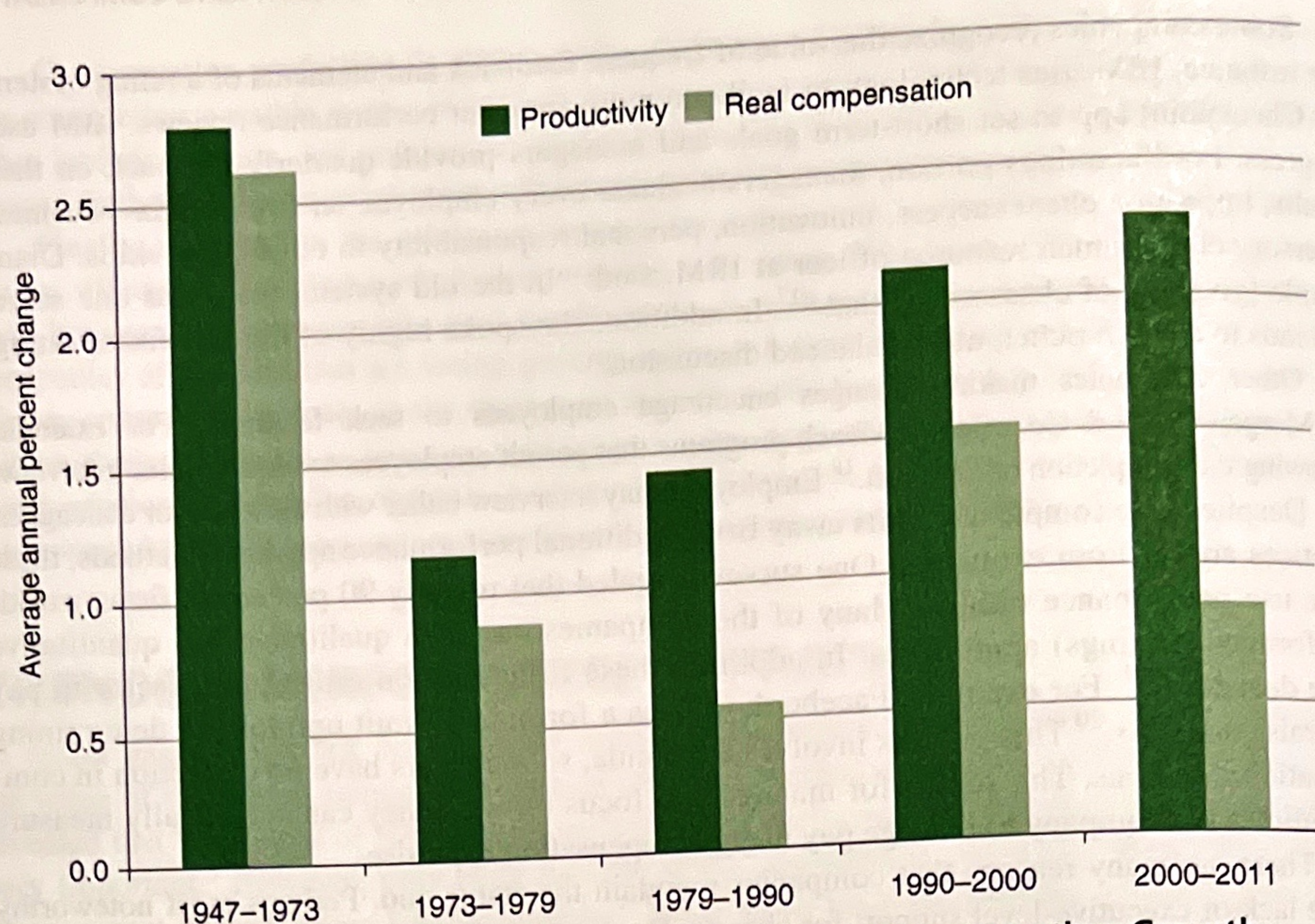
The **compensation–productivity gap** refers to the difference between real hourly compensation and labor productivity. The U.S. Bureau of Labor Statistics defines **labor productivity** as real output per hour worked (i.e., how efficiently labor is used in producing goods and services).<sup>25</sup> There are many possible factors affecting labor productivity growth, including changes in technology, capital investment, capacity utilization, use of intermediate inputs, improved managerial skills or organization of production, and improved skills of the workforce.

In the United States, pay has not been keeping up with productivity. Productivity growth promotes rising living standards in the following manner. Increases in productivity growth indicate companies’ investments in capital equipment and information technology. Examples of capital equipment include new manufacturing facilities, research and development labs, and sales distribution centers. Examples of information technology include structured databases containing expert information to help end users make informed decisions in complex situations. For instance, physicians may access databases to help them diagnose health conditions based on patients’ symptoms and health histories. Another example occurs in the marketing field where information systems enable companies to identify customers for new products and services based on a variety of factors, including household income and purchasing history.

Since the 1970s, real hourly compensation has lagged labor productivity growth as shown in Figure E-1.<sup>26</sup> The growth of productivity and real hourly compensation in the nonfarm business sector (which accounts for three-fourths of output and employment in the total U.S. economy) was comparable until 1973. The annual change in productivity averaged 2.8 percent and real hourly compensation growth averaged 2.6 percent during the 1947–1973 period. In 1973–1979,

**E-3.** Describe the compensation–productivity gap issue.



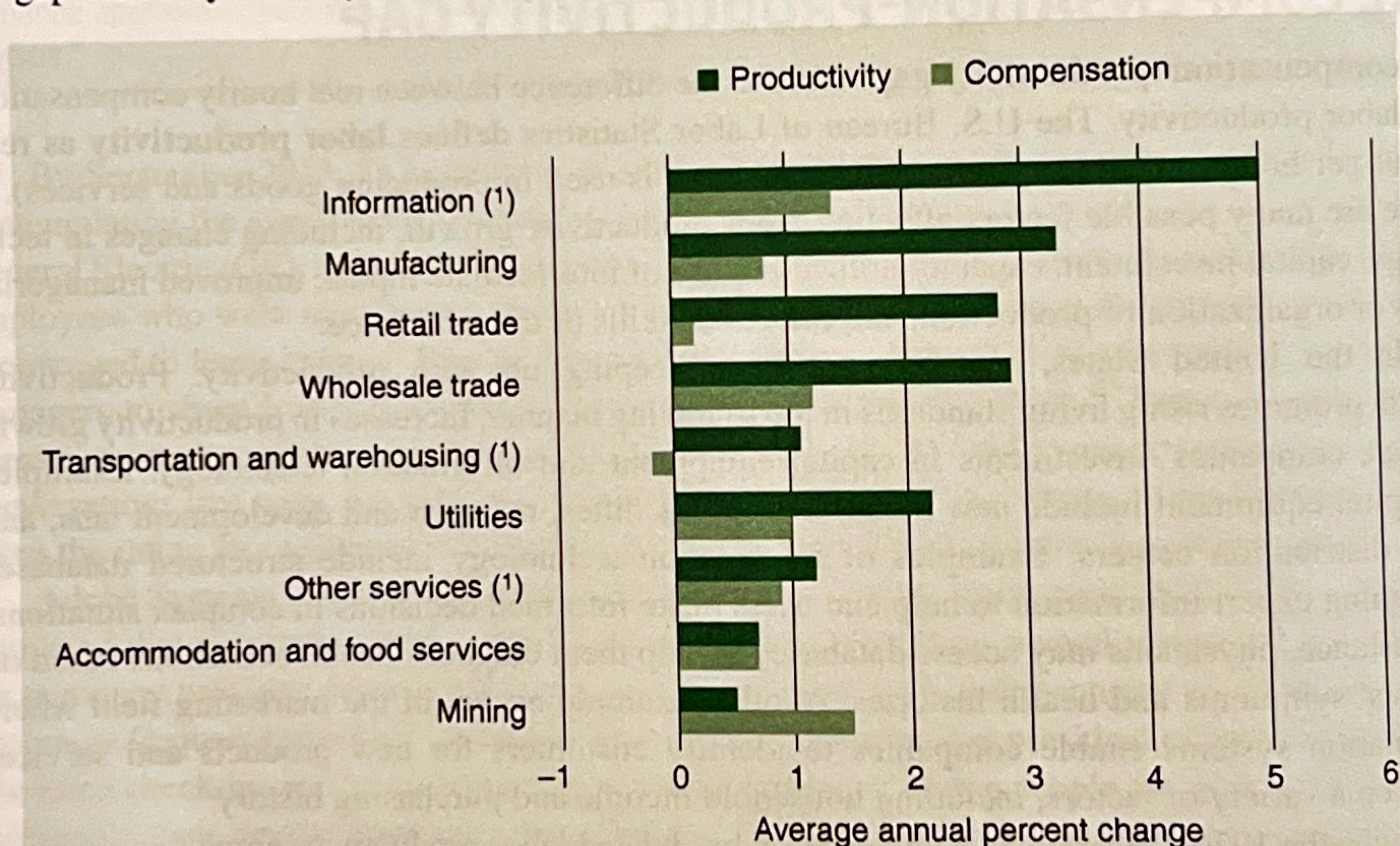


**FIGURE E-1 Productivity Growth and Real Hourly Compensation Growth, Selected Years, 1947–2011**

Source: U.S. Bureau of Labor Statistics.

the annual averages were at 1.1 and 0.9 percent, respectively. Real hourly compensation growth failed to keep pace with accelerating productivity growth over the past three decades, and the gap between productivity growth and compensation growth widened. Hence, during 2000–2011, average annual growth in productivity and real compensation equaled 2.3 percent and 0.9 percent, respectively. Not shown in Figure E-1 is the continued trend through mid 2018.

The compensation–productivity gap is evident in most industries, but the magnitude of the gap varies by industry as shown in Figure E-2. For the period 1987–2015, the gap is most



(¹) Industry coverage is significant but less than 100 percent.

**FIGURE E-2 Productivity and Compensation by Sector, 1987–2015**

Source: U.S. Bureau of Labor Statistics.



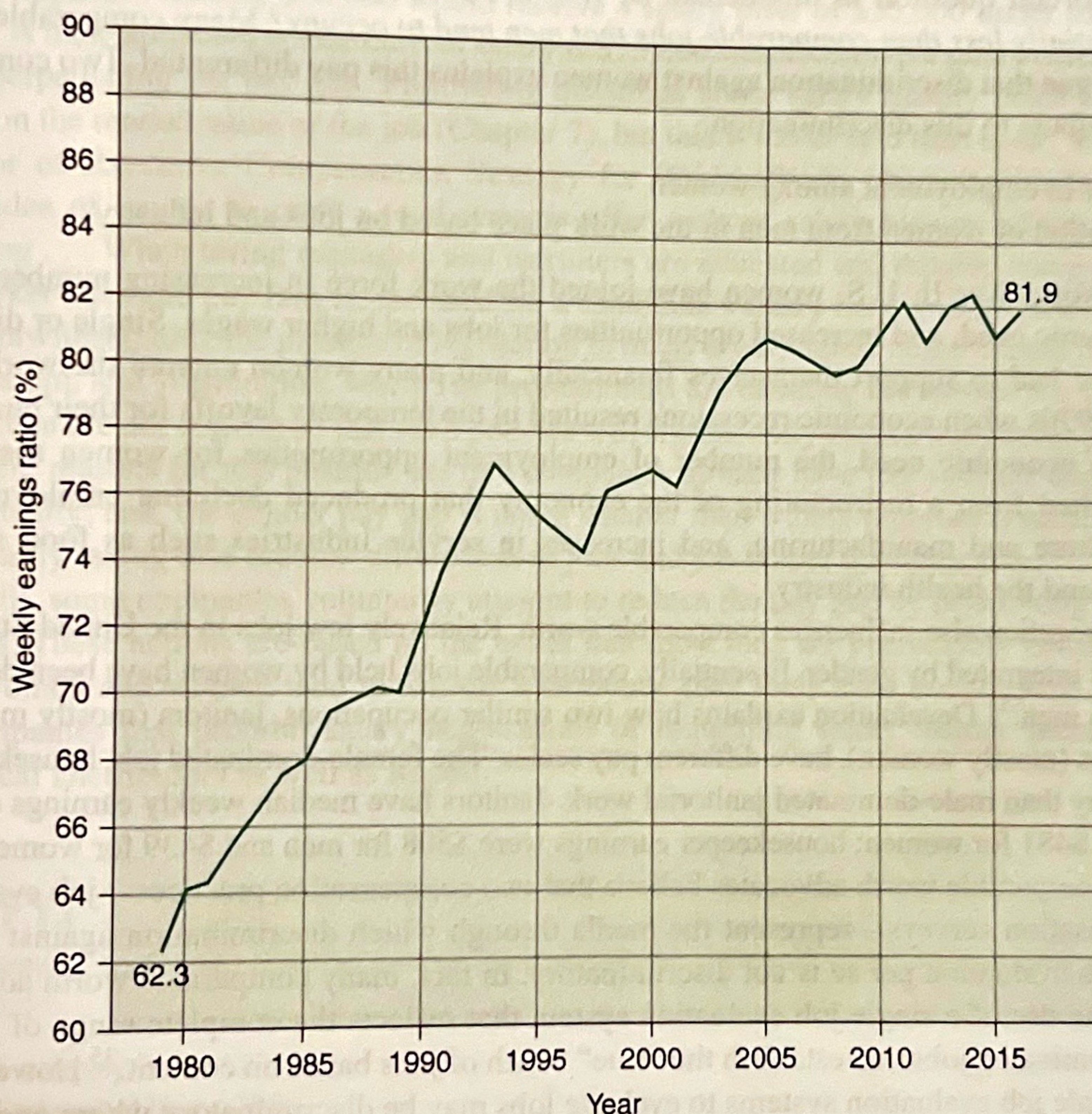
substantial in the information and manufacturing industries. Compensation and productivity grew at approximately the same rate in the accommodation and services industry. In mining, the growth in compensation far outpaced the growth in labor productivity. An important determinant of the gap is labor share of income. The **labor share of income** refers to the part of economic output that goes to workers as compensation in return for their labor.<sup>27</sup> Declines in the labor share widen the gap between these two measures, while increases narrow the gap.<sup>28</sup>

The compensation–productivity gap undoubtedly poses challenges for compensation professionals who develop and implement pay-for-performance systems, especially, merit pay. As discussed in Chapter 3, under merit pay programs, employees earn permanent merit increases based on job performance. A widening compensation–productivity gap undermines the intent of pay-for-performance. Meanwhile, years of small annual merit pay increase budgets have lagged productivity increases. This problem is exacerbated when rises in the cost of living further erode the value of merit pay increases.

## GENDER PAY GAP

The **gender pay gap** refers to the proportion of women's earnings relative to men's earnings. Women earn substantially less than men. A gender-based pay gap has endured for over 150 years.<sup>29</sup> Figure E-3 shows the trend in the size of the gender pay gap. Although the pay gap has decreased in recent decades, it is still substantial. In 1979, the gap was 62.3 percent, or 81.9 percent.<sup>30</sup>

**E-4.** Discuss the gender pay gap.



**FIGURE E-3 Gender Earnings Ratio by Weekly Earnings, 1979–2016**

Source: U.S. Bureau of Labor Statistics, "Earnings and Earnings Ratios," 1979–2016 Current Population Survey, U.S. Bureau of Labor Statistics, accessed April 13, 2018, at <http://www.bls.gov>.



## FYI

The gender wage gap varies by race and ethnicity as a percentage of white, non-Hispanic male earnings:

- Hispanic women: 54.4%
- Black women: 62.5%
- White, non-Hispanic: 79.0%
- Asian women: 87.4%<sup>31</sup>

Through the years, the gap has been the subject of discussion and heated debates at all levels of government, in legal circles, HR departments, and in executive board rooms. Academic and public policy researchers have studied the gender pay gap from various perspectives, including social stratification, social justice, illegal discrimination, and economics. These perspectives are complex and many are intertwined. As a starting point, it is useful to consider the underlying causes of the gap and what compensation professionals can do to eliminate any pay gap that is attributable to gender. One remedy is to provide equal pay for equal work. Another is to provide comparable pay for comparable work. Some academic and public policy researchers advanced the idea of comparable worth. **Comparable worth** has been a part of an ongoing societal debate regarding the pay differentials between men and women who perform similar, but not identical work. We will review the comparable worth debate here and its relationship to compensation practices.

Paula England, a renowned sociologist, has written extensively about the Comparable Worth debate.<sup>32</sup> For the purposes of this discussion, only a summary of the key issues based on her work are presented.

An important question in this debate is, *Why are jobs that are typically held by women paid substantially less than comparable jobs that men tend to occupy?* Many comparable worth advocates argue that discrimination against women explains this pay differential. Two contextual factors contribute to this discrimination:

- Increase in employment among women
- Segregation of women from men in the work place based on jobs and industry

Since World War II, U.S. women have joined the work force in increasing numbers, both out of economic need, and increased opportunities for jobs and higher wages. Single or divorced mothers have had to support themselves financially, and many women entered the work force during the 1970s when economic recessions resulted in the temporary layoffs for their husbands.

Besides economic need, the number of employment opportunities for women rose. This growth resulted from a restructuring of the economy that produced declining employment in both agriculture and manufacturing, and increases in service industries such as food service, retail sales, and the health industry.

Job segregation also influences comparable worth. Relatively few jobs in the United States are substantially integrated by gender. Essentially, comparable jobs held by women have been devalued compared to men.<sup>33</sup> Devaluation explains how two similar occupations, janitors (mostly men) and housekeepers (mostly women), have different pay scales. The female-dominated job, housekeeping, has lower pay than male-dominated janitorial work. Janitors have median weekly earnings of \$574 for men and \$481 for women; housekeeper earnings were \$508 for men and \$439 for women.<sup>34</sup>

Many comparable worth advocates believe that two compensation practices—job evaluation and compensation surveys—represent the media through which discrimination against women operates. Job evaluation per se is not discriminatory. In fact, many comparable worth advocates argue that the use of a single job evaluation system that reflects the complete range of female- and male-dominated jobs can establish the “true” worth of jobs based on content.<sup>35</sup> However, the use of multiple job evaluation systems to evaluate jobs may be discriminatory where one system is applied to male-dominated jobs, and the other is applied to female-dominated jobs.

Take the point rating system for example. Let’s assume that two point rating programs are developed, one for service jobs that are generally held by women—maid service, food service—and the other for service jobs that are generally held by men—janitorial, maintenance. In addition,



both systems are based on the four universal compensable factors—skill, effort, responsibility, and working conditions (Chapter 2), and the same descriptions for these compensable factors apply to each group of jobs. Job evaluators may consciously or unconsciously underrate the degree of compensable factors for the female-dominated jobs relative to the male-dominated jobs.

Compensation surveys also have been implicated as culprits in pay disparity between men and women holding jobs of comparable worth. Specifically, comparable worth advocates (among others) argue that market rates are biased against women. In *Lemons v. The City and County of Denver*<sup>36</sup>, Lemons claimed that her job as a nurse—a female-dominated job—was illegally paid less than comparable jobs held predominantly by men. In fact, Lemons argued that nursing required more education and skill than some of the male-dominated jobs, and so should be paid at a higher rate despite market factors—the fact that the male-dominated jobs generally earned higher rates in the local labor market. She also argued that local labor markets were inherently biased against women, and, therefore, should not be a legitimate basis for establishing pay rates. The court disagreed with her charge on the basis that *Title VII* (Chapter 2) did not focus on equalizing market disparities.

More recently, asking job candidates to reveal salary history has been implicated in perpetuating the gender pay gap, and legislation in some cities (e.g., New Orleans and Pittsburgh) and states (California and Massachusetts) have banned this and related practices. The Massachusetts' Pay Equity Act prohibits companies from inquiring about an applicant's pay history on job applications, interviews, and during pay negotiations. Companies are also prohibited from asking previous employers to verify pay amount prior to making a job offer. This law does have the potential to reduce the pay gap. For example, let's say that an employer's policy is to offer a salary that is 10 percent higher than the applicant's previous salary. And, for this illustration, a female applicant making \$50,000 would receive a salary offer of \$55,000 under the company's policy. A male applicant whose current salary is \$75,000 would receive a salary offer of \$82,500, thus, perpetuating the pay gap. Prohibiting questions about salary history helps companies to focus on the market value of the job (Chapter 7), but this is easier said than done. Sue Holloway, director of Executive Compensation Strategy for WorldatWork, characterizes this difficulty: "The idea of having to craft a total rewards offer without salary history information can be daunting . . . When hiring managers and recruiters are educated and reliable compensation data on market rates and pay ranges, the need for a candidate's salary history diminishes."<sup>37</sup>

Notwithstanding the passage of legislation in many areas, others failed to pass in Minnesota, Mississippi, and Washington. Many HR professionals are debating the merits of a salary history ban. Some are not convinced that such policies will significantly reduce the gender pay gap. Two prevalent reasons for this position are that companies already have pay systems that monitor for pay equality; and, the gender pay gap is much smaller than widely reported statistics that do not necessarily taking into account differences in jobs and job holder qualifications.<sup>38</sup>

Still, some companies voluntarily attempt to reduce the pay gap by prohibiting salary negotiations. These actions are based on the belief that most men are presumably better negotiators than women and women tend to ask for less money than their male counterparts.<sup>39</sup> Examples of companies that prohibit salary negotiations or requesting salary history include Alameda Electrical Distributors as well as Reddit.

## FYI

A survey of companies revealed the following about the likelihood of adopting a salary history ban adoption:

- Extremely likely: 12%
- Somewhat likely: 28%
- Somewhat unlikely: 19%
- Extremely unlikely: 14%
- Not considering adoption: 28%<sup>40</sup> (sums to more than 100 percent due to rounding error)



## PAY TRANSPARENCY

**E-5.** Explain the issue of pay transparency.

**Pay transparency** refers to the extent to which companies make available information about one or more elements of the compensation system, including all employees' pay or the formula for all pay decisions, pay grades and ranges, and the process and criteria for setting base pay and pay increase amounts. Revealing all information is full transparency; sharing less information refers to partial pay transparency. Choosing to reveal no information is synonymous with pay secrecy. Perspectives about the merit of pay transparency vary. It is common to find ones that advocate for pay transparency or pay secrecy exclusively. Many companies are cautious about revealing information, believing that pay transparency can create as much or more damage as good.<sup>41</sup>

### FYI

A survey of employees in several countries responded in the following way to the statement: I have a good understanding of how people are compensated at all levels in my company:

- All countries: 56%
- Canada: 71%
- United Kingdom: 61%
- United States: 60%
- Netherlands: 56%
- France: 52%
- Switzerland: 49%
- Germany: 43%<sup>42</sup>

Starting with good, transparent policies can promote motivation and higher performance over the long run by sharing information about the processes or formulas used to determine pay and pay increases throughout the company. A study by PayScale found “that one of the top predictors of employee sentiment, including ‘satisfaction’ and ‘intent to leave,’ was a company’s ability to communicate clearly about compensation.”<sup>43</sup> Transparency alone is insufficient to reap these benefits. Companies must go beyond written words to full-on engagement of employees as valuable contributors and providing opportunities for their development.

On the flip side, (partial) pay transparency may compromise motivation and performance. Consider a company’s decision to publish partial information about pay structures, including pay grades, the jobs within each grade, and the corresponding pay ranges. An employee can easily see their place within the pay structure; however, knowledge of placement in the structure alone will likely lead to questions and concerns about unfair treatment. Armed with pertinent knowledge, employees may take the initiative to strive for better performance and to ask for performance feedback more regularly.

A downside of transparency is the biases with which we judge comparative information. Individuals often believe that their performance or contributions are higher than they are. A study of engineers found that nearly half judged themselves to be within the top five percent of their peers and 92 percent (including the previous group) believed that they were in the top quartile of performance.<sup>44</sup> Self-flattering assessments may lead to complacency or unrealistic expectations that they should be paid more.

The absence of pay transparency often raises questions about the legality and fairness of the gender pay gap. As we discussed earlier, not all gender pay gaps are illegal; the absence of information may raise suspicions. When employees share information about their pay with coworkers, any gender pay differential will be scrutinized. In the absence of information about decisions that led to the differences are revealed, the differential may be seen as potentially



discriminatory. Many companies are reluctant to disseminate employees' pay to protect privacy and information about their status in the organization. For instance, lower pay for equal work could be due to a track record of mediocre or poor performance.

Sometimes, companies choose to withhold pay information for the sake of convenience. Kevin F. Hallock, dean of the Industrial and Labor Relations School at Cornell University, said that transparency "is too disruptive, and not worth it." Also, he pointed out that many companies choose not to reveal pay information because they "aren't very good at explaining to employees why they're being paid what they're paid, or what they must do to earn more."<sup>45</sup>

## PREPARING FOR EXAMS/QUIZZES

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### Chapter Summary by Learning Objectives

**Learning Objective E-1.** *Explain the issues associated with a possible increase to the federal minimum wage rate.* There are discussions occurring on the national stage about the possibility of raising the federal minimum wage rate. While such changes will be welcome news to a large segment of the labor force, there are possible consequences, such as higher unemployment.

**Learning Objective E-2.** *Summarize the trends in performance appraisal and the relationship to compensation practices.* Traditional performance appraisal methods have come under scrutiny for a variety of reasons. Many companies have set aside traditional performance appraisal approaches for continuous performance discussions; others have introduced hybrid methods that combine features of ratings and continuous discussions. Criticisms of traditional methods do not signal the extinction of this approach. While new approaches show promise, they are not without limitations, including how to determine pay increase amounts based on qualitative feedback and managers having difficulty framing the performance discussion.

**Learning Objective E-3.** *Describe the compensation-productivity gap issue.* The compensation-productivity gap refers to the difference between hourly compensation and labor productivity. For decades, increases in compensation have lagged increases in productivity, and it is prevalent in most industries. This gap poses challenges for compensation professionals who strive to establish

pay-for-performance programs that motivate employees. The challenge is greater because of small merit pay increase budgets and the rising cost of living.

**Learning Objective E-4.** *Discuss the gender pay gap.* The gender pay gap refers to the proportion of women's earnings relative to men's earnings. Women earn substantially less than men. The pay gap was 81.9 percent in 2016. Besides illegal pay discrimination, a variety of other factors captured in the comparable worth debate are believed to contribute to the gender pay gap. Compensation practices thought to contribute to the gap is job evaluation, market pay surveys, and asking job candidates for their salary history. In recent years, some cities and states have passed legislation that prohibits asking job candidates for their salary history. There are differences in opinion among compensation and HR professionals about the utility of the ban.

**Learning Objective E-5.** *Explain the issue of pay transparency.* Pay transparency refers to the extent to which companies make available information about one or more elements of the compensation system, including all employees' pay or the formula for all pay decisions, pay grades and ranges, and the process and criteria for setting base pay and pay increase amounts. There are a variety of pros and cons of sharing compensation information and these vary, in part, by how much information companies share with employees.