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GENDER DIFFERENCES IN PAY AND PAY RAISES

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Differences in gender as well as race differences, in pay are beginning to get a great deal more attention in terms of the law and public policy.

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1. THE RISE IS DUAL EARNER FAMILIES

Despite years of research by many different scholars, gender discrimination in pay is only partially understood. In one fascinating study, for example, researchers found that men who used an external market career strategy (i.e., changed the company they worked for) made significantly greater gains than men who used an internal market career strategy (i.e., remained in the same company). Women did not experience this difference. Thus, men may gain bigger pay increases when they change employers than do women. One topic which has generated considerable discussion in the last 20 years is why women appear to earn less money than men, even when factors such as job level, education, and seniority are taken into account. A recent explanation for the lower base pay of women is that they typically begin at a lower starting pay rate than men and essentially never recover from this. However, only one study has empirically tested that fact and this study only used managerial and professional employees.

Despite the ubiquitous finding that women earn lower base pay than men, research by human resource management scholars has consistently reported the opposite effect when it comes to pay increases (in percentages) within the same organization. Specifically, when looking within a single organization, a number of independent studies have reported that women earned higher pay increases. Two explanations have been offered, but not empirically tested, for this phenomenon. One explanation, the reduced stereotyping explanation, is that stereotyping effects operate when the decision-maker is not familiar with the employee's qualifications or work performance but stereotyping does not occur when the decision-maker is familiar with the employee's qualifications and performance. Thus, when hired, female workers are offered less money. Once employed, however, the decision-maker is more familiar with their work. Given their lower expectations, the decision-makers rate their performance higher than they would rate men, for whom their expectations were higher. As a result, raises are higher for women.

A second explanation, the structural features explanation, is that women receive higher raises because many organizations base a raise on two factors: performance and point in grade. This latter factor means that <u>all things being equal</u> (e.g., job grade, performance rating), the employee who makes <u>less</u> money will get a higher percentage raise than an employee who makes <u>more</u> money. Because women on average earn lower pay, they receive on average higher raises.

Using data from a single organization in the Southwestern U.S., it was found that while starting pay helps explain quite a lot of variance in gender differences, even when taking into account job grade, education, and seniority, men are still paid significantly more than women. Second, the structural features explanation appears to account for the finding that women receive higher percentage raises than men. Women receive higher pay raises (in percentage terms) because they have lower pay to begin with compared to men.

Even with higher percentage raises, however, over the three year period studied, women not only don't begin to catch up with men in terms of base pay, they actually fall somewhat further behind in base pay. Differences in gender, as well as race differences, in pay are beginning to get a great deal more attention in terms of the law and public policy. In the U.S. Congress, a bill called the Fair Pay Act of 1999 has been introduced to attempt to rectify gender differences in pay.

A spate of recent lawsuits (e.g., against Microsoft) has focused on race differences in pay. One of the challenges in studying pay discrimination is to completely measure and test all plausible explanations for compensation differences. For example, failing to include work experience in one's analyses may account for gender differences in pay, which may be mistaken for discrimination. Such differences may become a major bone of contention in a lawsuit.

Finally, the U.S. Equal Employment Opportunity Commission (EEOC) has recently introduced new compliance guidelines to investigate pay discrimination. These trends suggest that in the future, more attention will be paid to the law and compensation issues.

Policy makers, managers, and legal experts should recognize that statistics play, and will continue to play, an important role in determining whether gender or race bias in pay and pay raises has occurred. What is particularly noteworthy about this is that simply "eyeballing" or qualitatively reviewing pay policies and practices is not enough; organizations need to use sophisticated multivariate techniques to understand whether discrimination may be occurring in their compensation systems

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REFERENCES AND MATERIAL FOR FURTHER READING

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