

Pay equity for small business

Worked examples: Two fictional case studies

25 March 2015

Worked example 1

European Quality Footwear Pty Ltd

Note: the following worked example is fictitious and has been created to demonstrate the process a small business might undertake in conducting a payroll analysis. Payroll data has been created and does not reflect actual information from any organisation.

Overview of the case

European Quality Footwear Pty Ltd imports shoes for women and men from Europe (predominantly Italy and Spain) and employs 25 staff across their head office and retail stores.¹

When the business started, it employed five family members and sourced product by traveling to Europe once a year and supplementing stock throughout the year with shoes sourced from the makers' catalogues. In 2005, the owner's son took over as CEO and now more of the buying is done online. The business is still owned by the family and two of the 'other executive' managers are family members.

The executive assistant to the CEO has been in the role since 1975 and has extensive knowledge of the history and development of the business, as well as strong business relationships with client organisations and suppliers. She is a key factor in the continued success of the business and is responsible for staffing issues and training. Her role is classified at the 'other executive' level.

The finance manager, a retired chartered accountant and professional associate of the founder, is the only key management personnel (KMP). He has worked for European Quality Footwear Pty Ltd for the past 15 years on a part-time contract basis and has extensive experience in the clothing and footwear industry.

Since 2005, the organisation has experienced minimal turnover. The average tenure is 10 years for women and 15 years for men.² Training of employees is predominantly on the job; however managers below KMP level have a personal education budget of \$1,000 per year.

The business does not have a union presence and remuneration is not based on any award. Other than the finance director, all staff are employed on a permanent basis and starting salaries are set in line with the recruiting manager's knowledge of market rates and based on what the business considers appropriate for the employee's skills and experience.

Employee benefits include subsidised health insurance, shoes at cost price up to an annual total of \$1,000 and corporate clothing supplied free to the store operations manager and employees working in the two stores. All employees except the finance director receive 10% superannuation.

In the past two years, demand for the organisation's products has increased significantly and the company is preparing to expand its operations both via new stores and an online presence. With a potential doubling of staff, the finance director, who is also responsible for legal compliance, has recommended a thorough review of job descriptions, recruitment and setting of remuneration. Due to current inconsistencies in remuneration for similar roles, it is difficult to determine appropriate starting salaries for new roles.

The executive assistant and accountant have been tasked with reviewing current remuneration and job roles and making recommendations to the finance director and CEO.

¹ The business was started by Anna and Joseph Goldmann in 1972 to meet a demand for quality footwear from clientele who had traditionally bought footwear on overseas trips. While the business originally served clients from Melbourne's eastern suburbs, it now serves clients nationally. The business has, to date, resisted online trading, preferring to offer personal service in-store to clients, many of whom are the third generation of their family to buy shoes from European Quality footwear.

² In 2009-10 the business experienced a significant drop in sales as a result of the global financial crisis. This was managed without job cuts. Staff agreed to work either a four day week or a six hour day for a period of 18 months until business demand recovered. Store opening hours were changed to 11.30 to 4.30 Monday to Saturday. During this period the company significantly reduced its orders from its European suppliers.

European Quality Footwear Pty Ltd: aggregated remuneration data by level

What does the workplace profile and aggregated data for remuneration by level tell us?

Reviewing remuneration data by level reveals the annualised average full-time equivalent remuneration for both base and total salary is higher for men at all levels. The difference is particularly obvious for the non-management staff (*others*) where the full-time equivalent remuneration for women is considerable lower, and lower still for women working permanently on a part-time basis.

The inconsistencies in remuneration for women and men need to be investigated to determine and address the causes and eliminate any gender bias.

	Gender	Full-time permanent	Part-time permanent	Full-time contract	Part-time contract	Casual	Base salary	Total salary
CEO	Male	1					300,000	350,000
	Female							
KMP	Male				1		250,000	250,000
	Female							
Other Exec -2	Male	3					200,000	250,000
	Female	1					75,000	85,000
Senior Mgrs -3	Male	2					130,000	149,000
	Female	2					100,000	122,500
Other Managers -4	Male							
	Female	1					84,000	100,000
Others	Male	4					77,325	86,125
	Female	5	5				FTP: 63,120 PTP: 50,100	FTP: 72,400 PTP: 55,860
TOTAL	Male	10			1			
	Female	9	5					

European Quality Footwear Pty Ltd: unit level data

What does the unit data tell us?

At the unit level, the data shows significant gender pay gaps at all levels across the organisation. The annualised, full-time equivalent average base salary for women in the organisation is \$66,100 and \$141,930 for men – an organisational gender pay gap of 53.4%. Women, on average, earn 46.6% of what men earn in base salary. This is the same for total remuneration.

At the 'other executive' level, the three men and one woman earn between \$75,300 and \$220,000 in base salary and \$86,000 to \$290,000 in total remuneration. The one woman at this level earns the lowest remuneration and the data reveals that two of the male employees at the 'senior manager' level earn more than the female employee at the higher level 'other executive'.

Like-for-like gender pay gaps

A review of the unit level data, on a like-for-like basis revealed a number of inconsistencies that need addressing.

At the 'other executive' level, it is acknowledged that the operations manager and the sales and marketing manager have roles with comparable requirements and similar value to the business. Remuneration has been determined using salary surveys and while base salaries are explainable based on longer tenure and a more visible contribution from the sales and marketing manager, the bonus structure needs to be reviewed and job descriptions need updating.

An initial review of the executive assistant role and current job description reveals that the role has grown considerably over the last twenty years, while remuneration has not increased. The risk of the person leaving the business would have immense impact on strategy achievement and business success.

At the 'senior manager' level the buying manager men's footwear and buying manager women's footwear are the same roles and therefore the 23% gender pay gap for base salary and 19% pay gap for total remuneration cannot be explained either by tenure or by achievements. A review of the role history shows the buying manager men's footwear started on a higher salary than his female counterpart who also missed a salary review while she was on parental leave for six months.

Level		Role	Gender	Full-time perm	Part-time perm	Full-time contract	Part-time contract	Casual	Base salary	Total salary
CEO	1	CEO	Male	1					300,000	350,000
KPM – Finance	2	Finance Director	Male				1		250,000	250,000
Other Executives -2	3	Operations Manager	Male	1					200,000	250,000
	4	Sales and Marketing Manager	Male	1					220,000	290,000
	5	Accountant	Male	1					180,000	210,000
	6	Executive Assistant	Female	1					75,300	86,400
Senior Managers -3	7	Buying Manager Men's footwear	Male	1					128,000	148,000
	8	IT manager	Male	1					132,000	150,000
	9	Buying Manager Women's footwear	Female	1					99,000	120,000
	10	Store Operations Manager	Female	1					101,000	125,000
Other	11	Sales Manager	Female	1					84,000	99,000

Managers -4										
Others	12	IT Officer	Male	1					85,000	93,500
	13	Sales – men's shoes	Male	1					76,000	86,000
	14	Sales - men's shoes	Male	1					86,000	95,000
	15	Sales Officer	Male	1					62,300	70,000
	16	IT Officer	Female	1					62,000	71,000
	17	Sales - women's shoes	Female	1					65,300	75,500
	18	Sales - women's shoes	Female	1					65,300	75,500
	19	Sales - women's shoes	Female	1					64,000	72,000
	20	Sales - women's shoes	Female	1					59,000	68,000
	21	Sales - women's shoes	Female		1				51,000	57,000
	22	Sales - women's shoes	Female		1				49,500	55,000
	23	Sales Officer	Female		1				51,000	57,000
	24	Buying Officer	Female		1				51,000	57,000
	25	Buying Officer	Female		1				48,000	53,000

	Gender	Full-time permanent	Part-time permanent	Full-time contract	Part-time contract		Base salary	Total salary
TOTAL numbers	Male	10	5		1			
	Female	9	5					
Organisational average salary (excluding CEO)	Male					c	141,930	164,250
	Female						66,100	76,550

Questions arising from the gender payroll analysis

- What are the reasons for the lower female remuneration? Are they explainable? Are they justifiable? Can gender bias be eliminated as a factor?
- What are the reasons for the lower remuneration earned in part-time roles? Are they explainable? Are they justifiable? Can gender bias be eliminated as a factor?
- Why is there a lack of women in senior roles?
- Why are there no permanent part-time employees in a management role?
- Where job roles that involve the same or comparable work have been identified, why is remuneration for women and men in these roles significantly different?
- At the 'other executive' level, where job roles would be expected to be of similar value to the business, the one woman earns significantly less than the lowest paid man? Is this explainable? Is this justifiable? Can gender bias be eliminated as a factor?

Issues arising from an audit of policies and practices relating to remuneration

- Position descriptions, fully describing duties, skills and responsibilities, are not in place for many of the roles or are outdated.
- There is no recruitment policy and no remuneration policy. Recruiting managers generally set starting remuneration by considering:

- the amount the successful candidate has requested
 - the amount the successful candidate previously earned
 - the manager's own knowledge of the industry.
- The organisation has always recruited staff from those already in the industry, or known to the family.
 - There is no process of rating or ranking job roles to consider appropriate remuneration for new roles.
 - Promotion is rare (staff have long tenure in roles). Vacant roles at manager level and above have been filled through the networks of the family and other senior managers.
 - Performance appraisal and performance management are done on an ad hoc basis and not tied to salary advancement.
 - Non-management employees receive a standard 3% increase in remuneration each year.
 - Management employees receive annual remuneration increases following discussion with their manager.

Potential risks for the organisation

- non-compliance with legislation
- unable to recruit quality staff to meet planned growth with new stores and online business
- loss of key staff.

Challenges

- cost
- need to engage a human resources / remuneration specialist to implement required actions within time frames
- current managers will need to allocate time to consider and approve changes
- culture change
- management support for EA and accountant in implementing changes
- potential conflict of interest in EA recommending changes of which she will be a significant beneficiary
- entrenched attitudes towards salaries for sales officers in men's and women's shoes – men have always been paid more, although the roles are the same
- entrenched attitudes to the value of part-time staff (all women), particularly part-time sales staff
- valuing of IT officers over sales and buying officers.

Taking action

The EA and accountant consulted extensively with managers to analyse the causes of the gender pay gaps identified in the payroll review. With the assistance of the external human resources consultant, they developed a proposal of required actions to address the current gender pay gaps and prevent gaps occurring in future.

Address inequities in like-for-like salaries:

- **Action:** Increase the part-time employee's remuneration to equal the remuneration of the permanent employees working in the same role.
Result: Implement plan to increase the remuneration of the part-time employee to the lowest level of permanent staff, to be phased in over two years.
- **Action:** Increase the remuneration of the female sales officer so it equals the remuneration of the male sales officer (given same tenure and performance).
Result: Remuneration increase phased in over three years.
- **Action:** Review job roles of buying officers and determine appropriate remuneration.
Result: Implement immediate review of role and remuneration in preparation for recruitment of additional buying officers.
- **Action:** Set starting rates and yearly increases to be capped at five years' tenure for sales employees in both men's and women's shoes (roles are the same).
Result: Implement immediately in preparation for recruitment of additional sales people.

- **Action:** Increase the total remuneration of female sales employees to \$75,550.
Result: Agreed to increase to \$72,000, phased in over three years, as appropriate to tenure (longer tenure is the reason for higher remuneration for men in these roles).
- **Action:** Rename EA role to operations manager (people) and increase total remuneration to \$120,000 to be reviewed when gender-neutral evaluation is complete.
Result: Agreed, immediate action.

Address recruitment processes, management training and setting of remuneration

- **Action:** Engage external consultant to review and update all position descriptions to describe fully the duties, skills and responsibilities of the role in conjunction with an analytic gender neutral review of role requirements.
Result: Agreed, within 12 months for roles which need to be filled as part of expansion, within two years for other roles.
- **Action:** Implement policies in recruitment and remuneration setting and train managers in their use.
Result: Agreed, immediately.
- **Action:** Implement performance management process and link to specific increase in annual remuneration increase.
Result: Agreed, commence within 18 months and complete in three years.
- **Action:** Broaden recruitment pools beyond potential staff already known to organisation.
Result: Agreed, immediately.
- **Action:** Review commission process.
Result: Agreed, commence following year.
- **Action:** Implement cultural change process championed by executive management and conducted by external consultant with internal staff.
Result: Agreed, commence in six months.
- **Action:** Implement staff communication plan on the change processes.
Result: Agreed, immediate.
- **Action:** Research options for flexible working, including at management.
Result: Agreed, within 12 months.
- **Action:** Commit to budget of \$1 million over two years to implement changes and to avoid risk of gender discrimination, inability to attract new staff, and loss of key personnel
Result: Agreed \$400,000 this year and then review of requirements for next
- **Action:** Develop, implement and launch diversity policy, practices and education.
Result: Agreed, immediate.

Review and Monitor

- ensure agreed actions are completed within time frames or renegotiated
- measure results quarterly, report on successes
- undertake a gender pay analysis within 12 months to note improvements and highlight further areas for action.

Worked example 2

Uniforms Unlimited

Note: the following worked example is fictitious and has been created to demonstrate the process a small business might undertake in conducting a payroll analysis. Payroll data has been created and does not reflect actual information from any organisation.

Overview of the organisation

Uniforms Unlimited is an organisation of 20 staff. The business originally employed five family members and casual sewing-machinists from the local area were employed, as required, for larger contracts.

Since 2005, the company has imported ready-made sports clothing from the Philippines and applied branding at their premises, a process that is predominantly mechanised.

The original owner's son is the current CEO and the business is still owned by the family.

The CEO's assistant has been in the role since 1975 and, in addition to supporting the CEO, is responsible for staffing issues and training

The only '*key management personnel*' (KMP) is the operations manager, the brother-in-law of the CEO, who has extensive experience in the company and the clothing industry. He advises the business on changes to their operations, and has done so since 2001. He managed the sourcing and installation of more efficient machines for applying logos to the sports clothing in 2009 and 2013.

Within the organisation, the average tenure is 15 years for women and 10 years for men. Since 2000, the organisation has experienced minimal turnover.³

Female machine operators are paid at the appropriate award level for their experience, however the male machine operator started with the organisation at a time when men were paid above the award payment. All machinists are members of the Textile, Clothing and Footwear Union of Australia and the organisation's union representative is the longest serving female machinist. Uniforms Unlimited and the TCFU have maintained a cooperative relationship.

Training is predominantly on the job and for '*other*' staff there has been little training as most employees have been with the organisation for many years. Machine operators are provided with appropriate training when machines are upgraded and managers below KMP level receive a personal education budget of \$1,000 per year.

The CEO of Uniforms Unlimited has given the operations manager the task of conducting a gender pay gap analysis, in conjunction with an external HR consultant. The operations manager is concerned that ad hoc practices developed for describing jobs not covered by the award and for recruitment and remuneration decisions may not be justifiable. As a member of the family that owns the business, he has considerable influence with the CEO, as well as a financial interest in its operations.

³ In 2009-10 the business experienced a significant drop in orders for its products as a result of the global financial crisis, which was managed without job cuts. Employees agreed to work a nine-day fortnight for a period of 18 months until the business demand recovered. One machinist who decided not to return to work after parental leave was not replaced.

Uniforms Unlimited - unit level remuneration data – like-for-like analysis

		Role	Gender	Full-time perm	Par-time perm	Full-time contract	Part-time contract	Casual	Base salary	Total salary
CEO	1	CEO	Male	1					300,000	350,000
KPM	2	Operations Manager	Male	1					150,000	180,000
Other Exec -2	3	Business Manager	Male	1					90,000	120,000
	4	Accountant	Female	1					81,300	100,000
Senior Managers -3	5	Import Manager	Male	1					82,000	93,000
	6	Sales Manager	Male	1					78,000	87,000
	7	IT manager	Female	1					70,000	81,000
Other Managers -4										
	8	Production Manager	Female	1					68,000	76,000
Others	9	Machine operator	Male	1					56,000	63,300
	10	Accounts officer	Male	1					60,000	66,000
	11	Clerical officer	Male	1					58,000	63,700
	12	IT officer	Male	1					59,000	65,000
	13	CEO secretary	Female	1					52,000	59,200
	14	Machine operator	Female		1				44,000	50,000
	15	Machine operator	Female		1				42,200	48,500
	16	Machine operator	Female		1				45,000	51,700
	17	Accounts officer	Female		1				49,000	54,000
	18	Clerical officer	Female		1				45,300	52,000

	Gender	Full-time permanent	Part-time permanent	Full-time contract	Part-time contract		Base salary	Total salary
TOTAL numbers	Male	9						
	Female	4	5					
Organisational average salary (excluding CEO)	Male					c	79125	92250
	Female						55200	63600

What does the workplace profile tell us?

The workplace profile reveals the two highest paid roles in the organisation – the CEO and operations manager – are occupied by male full-time permanent employees.

At the 'other executive' level there is one man and one woman working full-time; at the 'senior manager' level there are two men and one woman working full-time, and the 'other manager' category has one female working full-time permanently.

At all levels where both women and men are represented, the annualised full-time equivalent remuneration (base and total) is higher for men.

What does the unit data tell us?

At the unit level, the data shows significant gender pay gaps at all levels across the organisation, with the organisation-wide gender pay gap sitting at 69.7% for base salary and 69.8% for total remuneration.

Within the 'others' category all male employees earn in excess of \$56,000 base salary and \$63,300 total remuneration, compared with all female employees who earn less than \$52,000 base salary and \$59,200 total remuneration.

Like-for-like gender pay gaps and recommendations

Same roles – machine operators

Within the organisation there are three women working part-time as machine operators, and one man working full-time. Each employee is performing the same role but has different tenure.

The female employees' remuneration is directly linked to the award and their years of tenure, so while the remuneration is lower for female machinists, their remuneration is linked to their time in the role. The part-time remuneration is exactly pro-rated to hours worked.

One of the female part-time employees missed a salary increment while on maternity leave for 12 months.

The one male machine operator commenced at 15% above the award payment has continued at the higher rate.

Recommendations

1. Ensure that, for any future machinist vacancies, successful applicants commence at the base rate for the award unless they have relevant previous experience, regardless of gender.
2. Develop a remuneration policy, which includes confirmation of starting remuneration for award staff at base rate, or at a maximum of two increments if previous experience demonstrates competence.
3. Maintain the current remuneration for male machine operator as this cannot be decreased.
4. Review the remuneration of the female machinist working part-time who missed a salary increment while on maternity leave. Her salary should be increased to the next increment if her production outcomes equal those of other machinists to avoid potential pregnancy discrimination.
5. Determine the company's approach to reviewing salaries of employees on long term leave and insert in to-be-developed remuneration policy.

Agreed actions

- Agreed actions on recommendations 1-5.
- Remuneration policy to be developed covering both award and non-award employees and agreed by management in current financial year and will include remuneration review process for staff who are absent at the review time.

Roles at the same level – CEO Secretary, Machine Operators, Accounts Officers, Clerical Officers

The remuneration for the CEO secretary (\$52,000 / \$59,200) is less than the male machine operator, male accounts officer, male clerical officer and male IT officer.

Recommendations

6. Undertake objective analysis of role requirements for positions and compare requirements and remuneration. It is expected that this review will result in increased remuneration for the CEO secretary.
7. Consider interim increase in remuneration for CEO secretary to level of male machine operator

Agreed Actions

- Agreed to undertake evaluation of roles in this financial year as per action one.
- Agreed to consider increase in remuneration for CEO secretary once evaluations have been completed.
- Interim increase for CEO secretary not agreed.

Same roles – accounts officers

The male accounts officer's remuneration is \$60,000 / \$66,000 and the female accounts officer's remuneration is \$49,000 / \$54,000.

This can be explained by his 20-year's tenure in the role and her 10-year tenure in the role.

As they are both producing similar outcomes and meeting the required performance standards, the difference in remuneration may not be justified.

Recommendations

8. Review performance in relation to remuneration for these roles.
9. Implement salary bands and increment levels for all non-award roles as part of implementing remuneration policy.
10. Increase remuneration for staff who are below band levels.

Agreed Actions

Action one and two agreed in next financial year, and action three to be considered following completion of actions one and two.

Same roles – clerical officers

The male clerical officer receives remuneration of \$58,000 base salary and \$63,700 total remuneration and the female clerical officer receives \$49,300 base salary and \$52,000 total remuneration. These roles are similar.

Each clerical officer has 10 years' experience and they both produce similar outcomes and meet required performance standards.

Recommendations

11. Investigate differences in remuneration to determine why there is a remuneration difference.
12. Align remuneration if difference cannot be explained and justified.

Agreed Actions

Action one to be undertaken and reported to CEO in current quarter, action two agreed if investigation supports this action.

Roles at the same level (import manager, sales manager and IT manager)

While remuneration for the import manager and sales manager roles have been set to reflect their importance in bringing in business and operating in two different countries, the importance of the IT role to the business has not been fully understood and the younger age on commencement of the female IT manager may have influenced starting remuneration.

Recommendations

1. Undertake objective analysis of role requirements for positions and compare requirements and remuneration.
2. Review current market rates for these roles.
3. Align remuneration if difference cannot be explained and justified

Agreed Actions

All actions agreed to be reviewed in next financial year.

Roles at the same level – business manager (male), accountant (female)

The higher remuneration of the business manager can be explained by his longer tenure in the role and the role's requirement to be more proactive in increasing sales and productivity but may not be justifiable when compared with the legal accountability of the accountant role.

Recommendations

1. Undertake objective analysis of role requirements for these positions and compare requirements and remuneration.

2. Review current market rates for these roles
3. Align remuneration if difference cannot be explained and justified

Agreed Actions

All actions to be reviewed in next financial year.

Other issues raised by HR Consultant

- Uniforms Unlimited has no policy on flexible working which may make it more difficult to recruit new staff when vacancies occur.
- There is no formal mechanism, apart from infrequent union meetings, to raise issues of concern from staff about working conditions.
- There are no guidelines on merit-based recruitment and setting remuneration for employees on commencement, promotion and annual review.
- There is a need to review remuneration at least annually to identify and fix gender pay gaps.
- There is no mechanism to review annual performance ratings for women and men to ensure that higher ratings are given to genuine high performers.

Recommendations

1. develop flexible working policy
2. implement staff survey or focus groups
3. Implement guidelines on recruitment and remuneration setting
4. annual review of remuneration and performance ratings / salary increases.

Agreed Actions

Recommendations to be considered at the end of the current financial year as they are not a priority given current long tenure, general level of satisfaction of staff and low or no recruitment expected in next 12 months. No resources available other than those committed to agreed projects above.

Challenges

- In a small organisation, employees are aware there is a review of the way they work and they have concerns. The organisation needs to consider how and what they communicate to staff about the review of gender pay equity process to allay their concerns.
- Uniforms Unlimited is considering the best way of engaging with the union on this project to continue their cooperative relationship.
- Reluctance of some staff to discuss their roles and responsibilities fully with HR consultant, fearing possible retrenchments.
- Reluctance of staff to raise issues with operations manager because he is a family member.
- Many of the 'other' employees are grateful to the organisation and the family for providing them with job opportunities close to home and do not want to appear ungrateful in raising issues.