Analysing The Pay Gap

If there's one thing guaranteed to create heated debate in the media, it's the disparity in wages between the highest- and lowest-paid people in organisations. This is a topic that can become quite controversial quite quickly, but a lot of the debate surrounding it can be unhelpful and actually misleading. In fact, it's a topic that requires deep analysis of lots of different factors – all of which businesses need to understand in order to navigate the pay gap and better serve their employees and shareholders.

We conducted research recently that shows that the pay gap is now on the rise in twice as many countries as it is falling (42 to 21) and this rise between lower-level workers and senior managers has widened in every region worldwide. But it's worth asking why this is, and how companies should manage the growing gap?

Why?

One of the most misunderstood aspects of the debate is that the size of the pay gap depends on a number of factors, not least the shape of the company and the types of workers it employs.

For example, a company that employs more people at a lower wage will have a higher disparity, especially if it's a multinational operating in lower wage markets. However, a company that has fewer people but mainly hires skilled people (such as a consulting firm or law firm) will have a smaller gap, even though they may have a CEO who earns far more than their counterpart in a manufacturing company.

These nuances aside, the pay gap has definitely accelerated since the recession. But this is not purely a post-recession issue. This has been building for the last 30 years – through boom as well as bust – and it's the result of two of the megatrends changing business: globalisation and digitisation.

Globalisation has opened up new markets and new workforces, meaning companies can now access a new pool of workers at lower cost. This new competition can affect wages in a company's home market. Another upshot is that, because of the increased complexity of multinational workforces, top executives are responsible for wider areas and more people, often resulting in larger pay packets.

Digitisation has also had a significant impact on pay. Many jobs have become simpler, reducing the level of skill needed for a huge number of roles. But digitisation has also led to a boom in the need for professionals to design and manage global systems. The digital revolution has also made it easier for companies to go global and take advantage of lower staff costs and larger markets.

The 'Hollowing Out' Of Organisations

There's no doubt that a large pay gap between jobs can cause huge discontent among the workforce. Similarly, the increased need for more skilled people to keep pace with the changes in technology and globalisation is leaving those in more routine and unskilled jobs out in the cold – as they become less and less important, or entirely redundant.

But it's not just the lower-level jobs that are being wiped out. Many former middle-management roles, such as legal executives or accountants have suffered a similar fate. What we're actually seeing is the 'hollowing out' of companies.

Our research shows that the reduction in middle management roles leads to senior managers increasing their 'span of control', where they are seeing more complex work and greater responsibility than in previous years, leading to more pay.

What Can Companies Do?

The most important thing is for companies to tackle the pay gap head-on and take steps to navigate the challenges it presents. Organisations need to be transparent with employees and communicate why reward policies are in place. Being proactive and explaining the underlying trends at work can really help guard against possible dissatisfaction.

Also, organisations should be realistic. They need to be aware of the changing demands on the workforce, and then plan ahead, gather insight and put a framework in place to manage and develop employees. Alongside this, organisations need to be clear about the skills they need and the skills they think they'll need in the future. This thinking doesn't have to be confined to a company – there may be national or even international skills demands, especially when it comes to training young people.

Importantly, organisations should consider how skills can be taught in work. From our research, this is particularly important with young people. In many cases, they haven't yet learned (either at school or university) the 'soft skills' – such as emotional intelligence, leadership and the ability to solve complex and unusual problems. These are now highly valued skills in the workplace.

Companies should also invest in their development programmes to upskill their workforces to meet the future demands of their businesses. This also helps create a talent pipeline. It's no longer enough for companies to solely rely on hiring smart university graduates. As our "Best Companies for Leadership" study shows, the best companies actually develop and increase the skills of their own people (and promote from within), which is both cheaper and more reliable than going to the market.

None of this is easy. But done properly, these solutions present an opportunity for organisations to navigate the pay gap and to genuinely improve employee engagement.

Our research shows that Europe has seen the smallest change globally, with an average increase in the pay gap of only 2.2 % since 2008. It is also the region with the greatest number of countries that have experienced a decrease in the pay gap, with Switzerland, France and Poland recording falls of 3.3%, 5.6%, and 12.8% respectively.

North America, by comparison, has experienced a 7.2% increase in senior manager pay compared to lower level employees. The United States alone has seen a 10.6% increase.

What explains this divergence between North America and Europe? Local employment practices are a major factor. In response to the recession, many companies in Europe introduced communal pay cuts to avoid job losses. In comparison, US companies more frequently cut jobs and asked the remaining senior managers to expand their scope of work during the recession. Many of those who remained employed received a pay increase as compensation for their expanded role, leading in part to the widening job level pay gap.

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