

THE WAGE GAP

ADDRESSING A SYSTEMIC
ISSUE THROUGH
ORGANIZATIONAL
CHANGE

NOVEMBER 2021

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What is the Wage Gap?

The term “wage gap” is a universally recognized phrase referring to the difference in pay between two groups of people. Wage gaps can be observed when examining American household incomes in 2020. Where 16.6% of White households earn \$100,000 to \$149,000, only 10.7% of Black households and 13.3% of Hispanic households fell into the same bracket.

While the most recognizable wage gaps are widely documented between genders and races, the fundamental issue of wage disparity can first be examined through two basic categories: Role-to-Role Wage Gap and Group-to-Group wage gap.

Source: [Statista](#)



Household Income Range
\$100,000 – \$149,000



16.6%

White
Households



10.7%

Black
Households



13.3%

Hispanic
Households



Role-to-Role Wage Gap

Role-to-role wage gap refers to the difference in earnings that exist between workers who are classified as performing the same tasks and have the same work experience. Typically, this form of wage gap between two individuals is caused by discriminating factors such as gender, race, sexual preference, etc. Fortunately, this specific disparity is becoming less common as organizations are transitioning to a more transparent approach regarding their pay structure.

However, role-to-role wage gap can still be seen today. Based upon the median salaries for men and women in the same job with the same qualifications, women earn 98 cents for every dollar earned by men whereas, before 1963, it was legal to pay women less than men for performing the same work.

Source: [NCSL](#)



Group-to-Group Wage Gap

Group-to-group wage gap encompasses the difference in wages between two groups, which can be directly tied to things like history, social class, and geographical location. It is under this category that most of the gender and racial wage gaps fall.

An example of a group-to-group wage gap can be clearly seen in the health sector. Traditionally, men are more likely to become physicians, while more women tend to become nurses. On the fundamental level, this causes a group-to-group wage gap. Although many factors contribute to group-to-group wage gaps, in this case, representation (both real life and in the media) as well as historical conditions are large contributing factors to this disparity.

This is considered a wage gap because of the inherent earning disparity created from these trends. Group-to-group wage gap still shows that based upon the median salaries for all women and all men, women earn 82 cents for every dollar that men earn. Additionally, black men earn 87 cents for every dollar earned by a white male.

Source: [SMRM](#)

Source: [AAMC](#)

The historical conditions that have created this specific trend can be used as a baseline example for other group-to-group wage gaps:



90%

REGISTERED
NURSES

81%

ELEMENTARY AND
MIDDLE SCHOOL
TEACHERS



68%

PHYSICIANS

65%

LAWYERS

86%

CLERGY

86%

ACTIVE
MILITARY



The tendency of groups to filter into specific careers is referred to as occupational segregation. The invasiveness of occupational segregation can best be observed by looking at the workforce as a whole.

Women earn
\$0.82
for every dollar earned
by men

Black men earn
\$0.87
for every dollar earned
by white men

Women make up
42%
of the workforce

Women hold
2/3
of low wage jobs

In 2020

38.3% of women in the US had completed 4 or more years
of college, where **36.7%** of men had done the same.

According to the Economic Policy Institute

workers of color are far more likely to earn poverty-level
wages than their white counterparts

Source: [Statista](#)

Source: [Economic Policy Institute](#)

Occupational Segregation and the Wage Gap

According to [Equitable Growth](#), there are four major factors that contribute to occupational segregation:

1. Occupational Crowding

The act of “crowding” marginalizes workers into lower-paying jobs. This speaks to historical discrimination against groups, in which employers would not hire certain workers for high-wage jobs because of their race, gender, sexual orientation, etc. This exclusion leads to a large number of marginalized workers seeking low-wage jobs, creating an excess supply and depressing wages. Black men and women are particularly affected by occupational crowding.

Occupational crowding can be observed in the military, where people of color who are entry level, Active-Duty personnel account for in their respective military branches:

30.9%

(Army)

39.3%

(Navy)

16.8%

(Marine Corps)

30.0%

(Air Force)

When moving into the top Officer ranks, those numbers drop to:

18.2%

(Army)

8.9%

(Navy)

11.8%

(Marine Corps)

8.4%

(Air Force)



2. Devaluation of Work

Data collected between 1950 and 2000 found that when some occupations became more concentrated with female workers, wages tended to fall or stagnate opposed to occupations dominated by men.



“Positions in education provide a good example of this phenomenon. The share of public school teachers who are men fell from **32.2 percent** in 1979 to only **24.9 percent** in 2018. Research shows that men’s exit from this occupation could reflect a growing wage penalty, where teachers’ earnings have declined relative to comparable workers in other professions.” (Equitable Growth)



This phenomenon negatively affects all groups entering these occupations. Devaluation of work is most prevalent in occupations that involve care of some sort including childcare, education, and healthcare.

3. Uneven Occupational Integration

Since the Civil Rights Movement, the labor force has become more integrated as a whole. However, not all groups are gaining access to high-wage occupations at the same rate.

According to the U.S. Bureau of Labor Statistics, “fifty-five percent of employed Asians worked in management, professional, and related occupations – the highest paying major occupational category – compared with 41 percent of employed Whites, 32 percent of employed Blacks, and 23 percent of employed Hispanics.” Additionally, in all STEM fields (Science, Technology, Engineering, and Math), only 26% of workers are women.

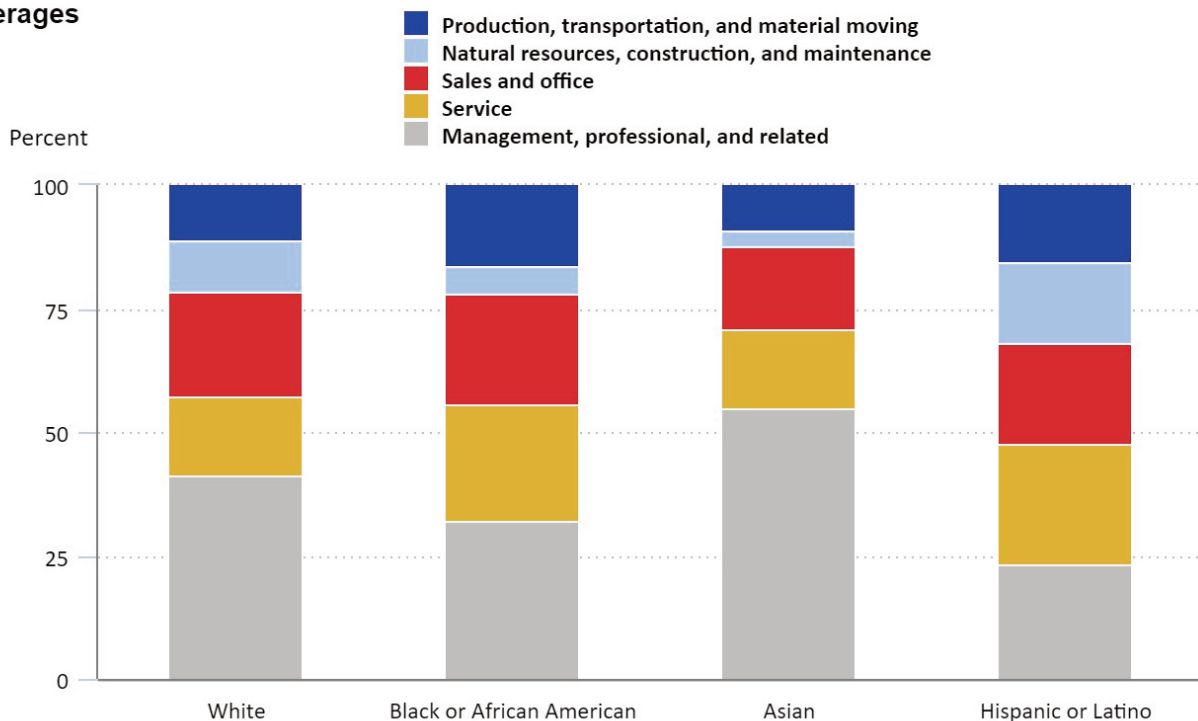
Statistics on women in the labor force and in which occupations they typically gain employment: Separate and Not Equal?

Source: [U.S. Bureau of Labor Statictics](#)

Source: [U.S. Department of Labor](#)

Source: [Institute for Women’s Policy Research](#)

Chart 3. Employed people by occupation, race, and Hispanic or Latino ethnicity, 2019 annual averages





U.S. Bureau of Labor Statistics

55%

of employed Asians worked in management,
professional, and related occupations

compared with

41%

Whites

32%

Blacks

23%

Hispanics



Additionally, in all **STEM** fields
(*Science, Technology, Engineering, and Math*),
only **26% of workers** are women.

4. Recessions

It's undeniable that women and minorities are disproportionately affected by recessions. These groups are more likely to experience unemployment or experience a decline in income due to taking a low-wage job after losing a high-wage position. For example, in February of 2021, the unemployment rate for white workers fell to 5.6% whereas Black workers reported job loss takes of 9.9% and Hispanic workers 8.5%.

There are many more underlying systemic contributing factors that produce wage gaps, and majority of them point to the inequalities and inequities experienced by marginalized groups suffering from occupational segregation.

Source: [CNBC](#)

Unemployment Rate – February of 2021

5.6%

White Workers

9.9%

Black Workers

8.5%

Hispanic Workers





Digital Divide and Wage Gap

The “Digital Divide” refers to the disparity in access to the internet, computers, and modern information through technology between socioeconomic and geographical groups. While most Americans now have internet access through their mobile phones, the digital divide in the United States is facing renewed scrutiny as many students of lower socioeconomic backgrounds lack the technological capabilities to adequately access their virtual learning classrooms.

According to the World Literacy Foundation, illiteracy, education, and internet access are “three linked factors in the digital divide.”

Access to the internet means access to job opportunities, education, and online resources. With the persisting existence of the Digital Divide, socioeconomically disadvantaged areas and marginalized groups lack basic tools to even access some high-wage occupations, further adding to the wage gap and occupational segregation.

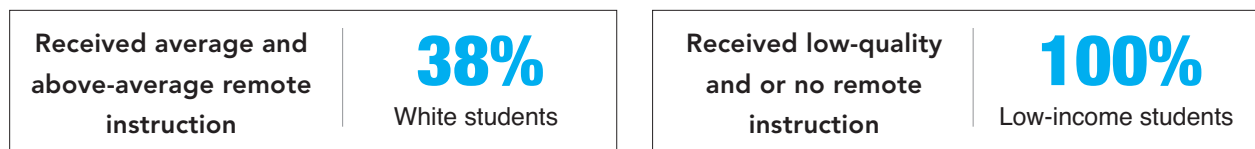


Achievement Gap

The Achievement Gap refers to the disparity in access to quality education between groups. The most glaring achievement gap exists between Black and Hispanic students and their White counterparts. This discrepancy persists through a student's educational career and affects potential earning power throughout their professional career as seen through the dilemma of group-to-group wage gap.

The Achievement Gap has been further exacerbated during the Coronavirus pandemic, when a majority of students were forced to receive virtual instruction. McKinsey & Company found that 38% of all white students reported to receive average and above-average remote instruction. The same study found that 60% of low-income students reported receiving low-quality remote instruction and the remaining 40% of low-income students reported receiving no instruction at all.

Source: [McKinsey & Company](#)



STEM Education

Men are disproportionally represented in Science, Technology, Engineering, and Math (STEM) careers, which has been directly tied to the fact that women and girls have historically been tracked away from STEM education. A similar disparity can be found among Black, Hispanic, and Native American students of both genders. This educational segregation leads to the occupational segregation that causes group-to-group wage gaps especially since careers in STEM are currently some of the best paying jobs in the workforce.

Source: [AAUW](#)

Source: [The Washington](#)



Unconscious Bias

Most people hold unconscious biases that might have been instilled at a young age. Sometimes these biases prevent the advancement of another person's career. For example, unconscious gender bias are prevalent because people generally think men make better leaders than women and women make better caregivers. Other examples of unconscious bias include:

- **Ageism:** discriminating against someone based on their age
- **Name bias:** judging a person's (typically their resume) based on their name and perceived background
- **Affinity bias:** Hiring, promoting, or gravitating towards someone with a similar to ourselves regarding race, gender, age, education, and social status

The presence of unconscious bias is harmful variant in group-to-group wage gap because it can be the deciding factor in whether someone gets interviewed for a position or hired for a job.

Test your unconscious bias via this Harvard Site.

Source: [Harvard](#)

Source: [Catalyst](#)



Discrimination

The United States has a long history of institutionalized discrimination. Although legislation has been put into place to prevent legal discrimination, the lingering effects can be found in certain aspects of occupational segregation.

Equal Pay
Act of

1963

Civil Rights
Act of

1964

Executive
Order 11246*

1965

Age
Discrimination
Employment
Act

1967

Rehabilitation
Act of

1973

American
Disabilities Act

1990

Prior to the passage of the laws, it was legal to discriminate against a person based upon factors such as gender, race, age, and disability. Despite the establishment of these laws making such discrimination illegal, it is nearly impossible to prevent all workplace discrimination.

* *Executive Order 11246 of 1965 and subsequent amendments establish Equal Employment Opportunity (EEO), which prohibits discrimination against applicants and employees on the basis of: race, color, religion, sex, sexual orientation, gender identity, or national origin.*

Source: [Wikipedia](#)





Living Wage vs Minimum Wage

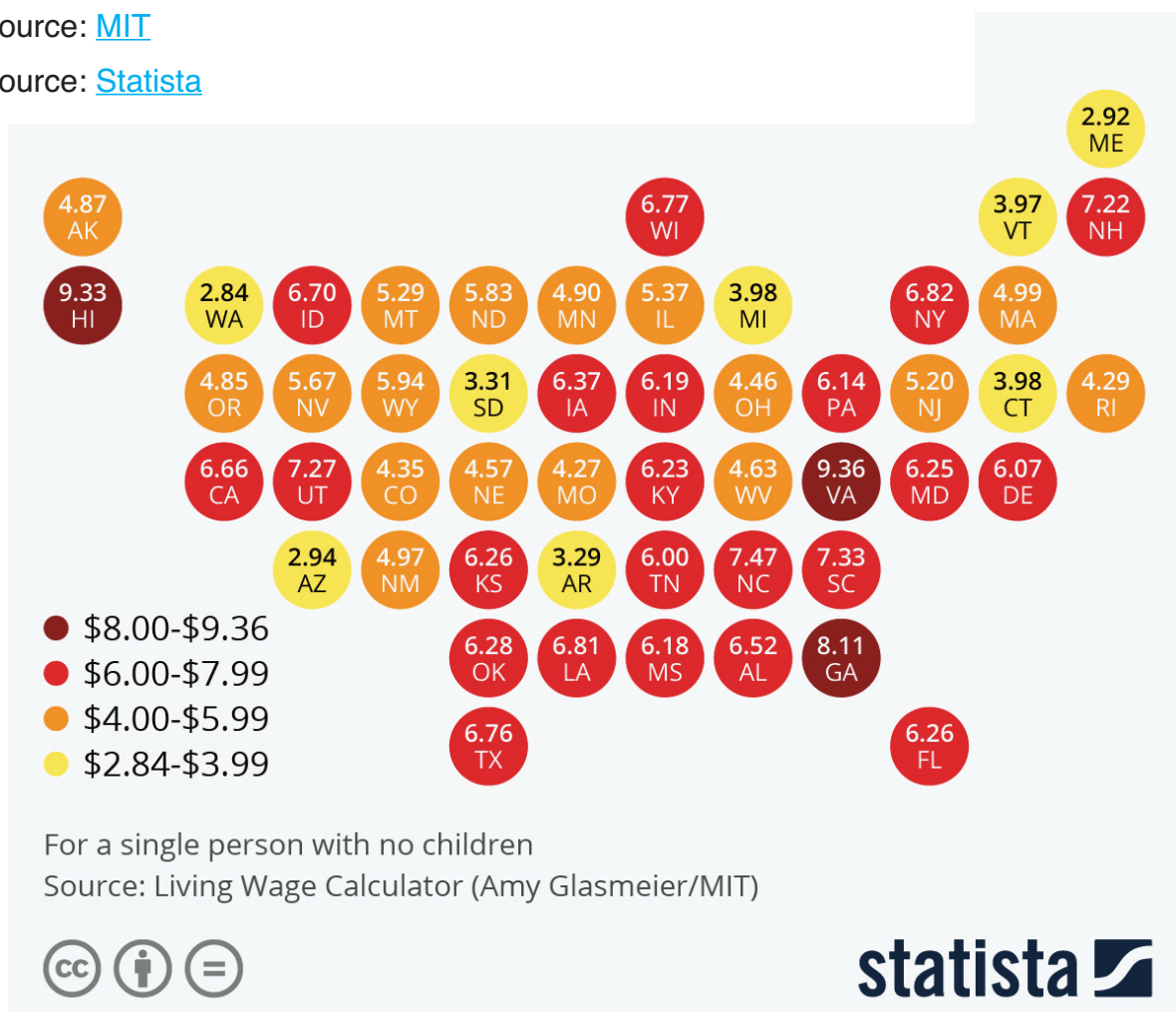
Another factor in the wage gap is the dramatic difference between minimum wage and the living wage in an area. While the disparities vary depending on the location, a study conducted by the Massachusetts Institute of Technology found that there is no state where the minimum wage provides enough money for a living wage.

The Federal Minimum wage is \$7.25, and it has not changed since 2009. Twenty-nine states, Washington, D.C., and some municipalities have passed their own minimum wage laws that are higher than the federal minimum wage. Despite some being as high as \$15 per hour (New York City), there is still gap between these minimum wages and the living wages everywhere.

The graph below, provided by Statista, illustrates these differences for each state in 2020. As shown below, the largest gaps are in Virginia (\$9.36) and Hawaii (\$9.33). The smallest gaps are in the states of Washington (\$2.84) and Maine (\$2.92).

Source: [MIT](#)

Source: [Statista](#)



Effects of the Wage Gap

The continued existence of the wage gap presents a problem not only for individuals and families, but for the entire economy. The direct impact of group-to-group wage gap means less money is circulated statewide and nationwide, more families remain in poverty, and there are continued discrepancies for women and minorities. Additional effects of the wage gap include the following:



Less money for necessities like groceries and rent



Fewer opportunities to pay for higher education



Less exposure to jobs paying a living wage



Gender, race, and social discrimination

Source: [Institute for Women's Policy Research](#)



Why Address the Wage Gap?

Creating equitable wages for women, minorities, and other historically disadvantaged populations is integral to retaining talented workers and fostering organizational diversity—both of which have been proven to increase profits.

Achieving pay equity within an organization will demonstrate to all workers that they are valued and respected. In 2019, Intel reported that the organization had taken great steps to close the pay gap internally, when considering wages, bonuses, and stocks. As a result, turnover decreased.

Retention of women, minorities, and other historically disadvantaged populations also leads to increased diversity within organizations.

Source: [SHRM](#)

Among the benefits of a diverse workforce are:

Applicants who said a diverse workforce is a factor in their decision when choosing a company to work for.

67%

Source: [ArchPoint Consulting](#)

Companies that are highly ethnically diverse companies report 15x more sales revenue than companies with the lowest levels of diversity.

15X

Source: [ArchPoint Consulting](#)

Organizations with senior management teams consisting of more than 15% female members enjoyed a 5% higher return on equity.



15%


Source: [Oleeeo](#)

Where to Start

Assess your organization. Take a deep dive on where your organization stands, taking into account all aspects of compensation, work history, position, and performance. Pay close attention to existing disparities.

Achieving pay equity require a bottom-up reassessment of your practices and procedures.

3 Questions to ask yourself

- 
- #1** Do you requirements for positions make sense? (i.e., Do entry all entry level positions require a four-year degree, or would an internal mentorship training program be a more meaningful system?)
 - #2** What barriers exist for internal promotions?
 - #3** What training could be provided within the organization to empower employees and equip them with the right skills for advancing their careers?

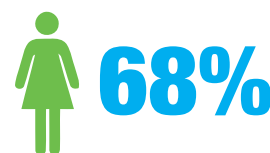


Understand Where You Are

Take a deeper dive into the existing pay disparities in your organization. It's important to understand where in the employment journey the disparity began. Many pay disparities begin during the hiring process and may be further exacerbated by negotiations during pay raises.

According to Glassdoor.com:

68% of women did not negotiate their salaries during the hiring process. In contrast, 52% of men did not.



Source: [Glassdoor](#)

Furthermore, 15% of men who did negotiate reported a successful outcome, compared to just 4% of women. When factoring in race, a study conducted by University of Virginia found that while “white and Black candidates were equally likely to try to negotiate their salary ... evaluators who scored high for racial bias believed that Black candidates had negotiated more often than white candidates”.

15% of men who did negotiate reported a successful outcome, compared to just 4% of women.



Source: [Harvard](#)

This misperception resulted in Black candidates being awarded a lower salary by those with a high racial bias.


When starting at a lower salary, disadvantaged populations begin at a lower trajectory than their white counterparts, making it harder for them to close the gap over time and perpetuating the existing pay gap.

Another opportunity to equalize whatever pay gap may exist within an organization is during the promotion process. Examine the review process for both raises and promotions and identify any existing opportunities for improvement.

Set Realistic Goals

Ultimately, the goal is to eliminate all wage gaps. However, measurable, and objective milestones should be set in pursuit of that goal. No one method will work for every organization, nor does one method even make sense for every organization.

Steps toward closing the wage gap include:

- 
- #1** Support transparency in pay
 - #2** Integrate DEI practices into company values
 - #3** Offer training and mentorship programs

Get Buy-In

Closing the pay gap can require a large initial investment. It is integral to get buy-in from stakeholders. Education is crucial during this process, and you should allow for space to ask questions and voice concerns.

Take key stakeholders through the policy and explain the benefits and reasoning behind the new policy. It is important to address concerns when you can and explain why it is not possible when you cannot.



Provide Support

Empower employees for career advancement through additional educational and training opportunities. A variety of training programs can benefit your employees and your organization. They include training in:

#1 Technical Skills

#2 Soft Skills

#3 Team Building

Be Transparent

If employees are unaware of the policy shift, then they may continue to believe that a wage gap exists within the organization. Just as it is important to garner buy-in from stakeholders, workers will need to be made aware of the efforts to right past wrongs. Not everyone will immediately support the initiatives, but your organization will undoubtedly gain a lot of respect of the transparency shown during the implementation stages.

Be Purposeful

However, your organization decides to close the wage gap, it must be done on purpose. Real organizational change must be motivated by true desire to shift company practices, not to check off boxes. The danger in checking off boxes lies in the lack of action steps and follow through once the boxes have been checked.

Whether you follow a strict pay schedule based upon titles or reevaluate the organizational structure of your company, it is important to ensure your policies are making a real and measurable impact.



FINAL THOUGHTS

The “bottom line” will continue to drive earning opportunities for most American workers. Organizations have the opportunity to ensure that earners who are in their systems have equal access. These opportunities should be anchored in the contribution level that employees provide but cannot be fairly distributed if the measurements used to identify contribution in your workforce are arbitrary.

Establishing well-documented markers and expectations, ensuring people have equal access to training, mentorship, and career progression building opportunities will take your organization to the front of the line in leveling the playing field for your workforce and help contribute to eliminating wage gaps all together.

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