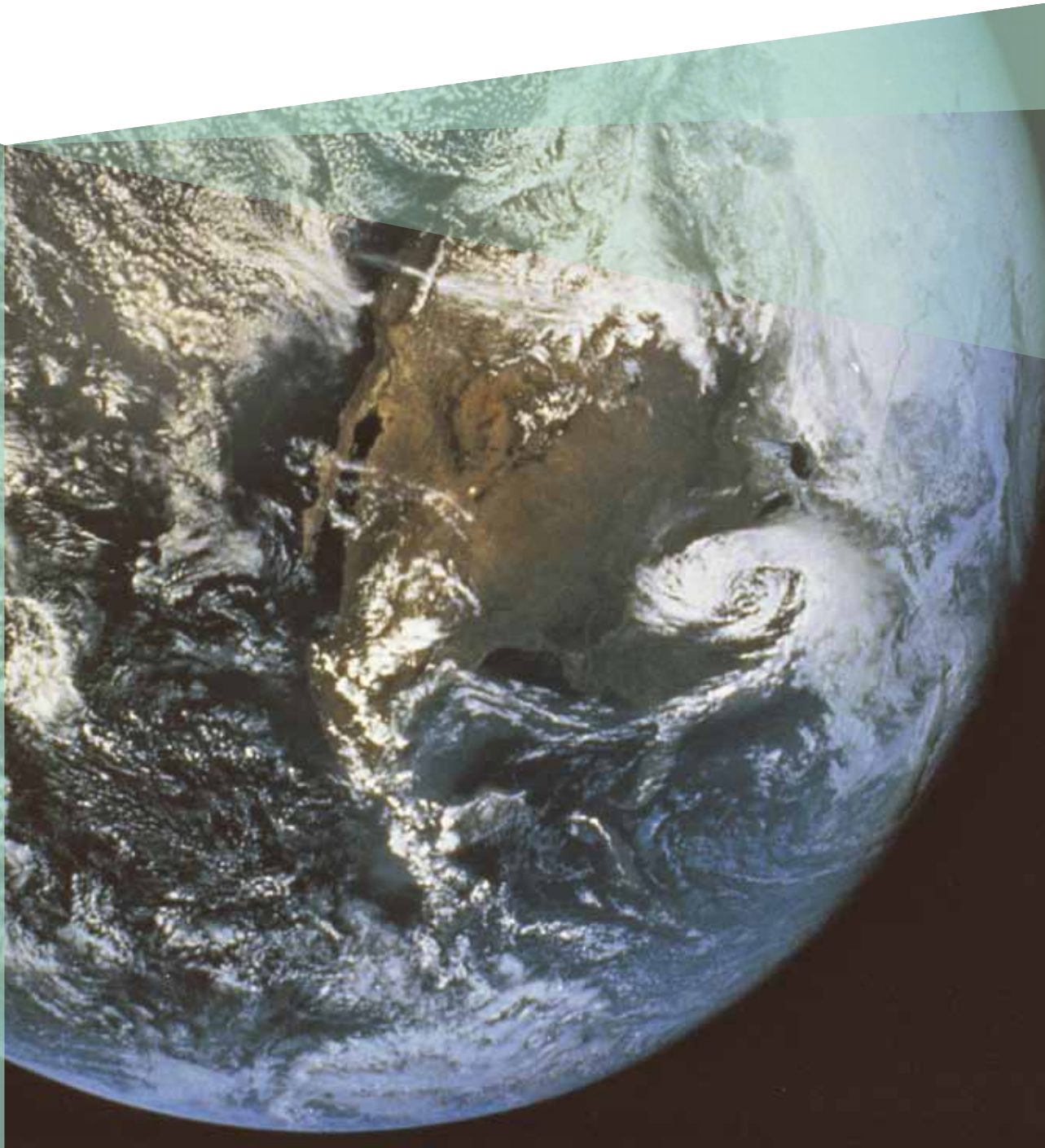


GENDER PAY EQUITY IN FRANCE ARE WE DEALING WITH THE RIGHT ISSUES? A MERCER/VEOLIA RESPONSE



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Even though legislation to ensure equal pay for men and women has been in place across most of Europe for 30–40 years, the disparity in pay continues to exist. As more countries introduce stricter regulations to close the gap, companies are rushing to conduct gender pay audits. Yet, all too often, a simple correlation of jobs performed by men and women is not possible, and gender is simply one of many factors contributing to the discrepancy in salaries.

THE LEGAL AND SOCIAL CONTEXT IN FRANCE

While the principle of pay equity for men and women has been enshrined in French law since 1972, it truly acquired teeth only in 2006, when companies faced a legal obligation to eliminate pay gaps for work of equal value through collective bargaining. Beginning in 2012, companies with more than 50 employees have faced a potential penalty of up to 1% of the total wage bill if they do not renegotiate their gender equity strategy annually. Gender equity extends across all HR processes (recruitment, promotion, terms of employment, working conditions) and not just pay equity.

French Labour authorities (*Ministère du Travail*) offer broad comparisons of average salaries across business sectors. Depending on the sector and job family, women are said to earn 15%–30% less than their male counterparts.¹ The *Rapport de Situation Comparée* analysis, a tool that the French government has introduced and now requires all companies with more than 50 employees to use, is a first step in comparing wages by gender according to employment levels.

However, it is a blunt instrument of analysis. If we examine the statistical data more closely, a more complex picture emerges. 2008 National Statistics Institute surveys of the labour market in France show that it is predominantly women who work part time (82% of all part-time workers, nearly 30% of the total working population), with nearly half of them citing children as the main reason for choosing this pattern of

¹ Source: Ministère du Travail, DARES, 2009.

work. Women are also more likely to retire at the age of 65, thereby accumulating fewer years in their pension pot. Additional factors affecting salary differences include, but are not limited to, the following: professional qualifications (and the schools from which employees have graduated), work experience/seniority, geographical mobility, internal job classifications, age, performance reviews and employment structures within the organisation.

All too often, comparisons of average or median salaries for men and women are not looking at “like for like”. How useful, for instance, is a broad-brush comparison of the type below?

Figure 1
Sample Comparison of Salaries for Two Workers

PERSONAL DETAILS	MR. JONES	MS. SMITH
Age	49 years old	35 years old
Tenure	12 years	2 years
Performance	A+	C-
Degree	Master’s degree	High school diploma
Job	Key Account Manager	Commercial Assistant
Annual base salary	€46,000	€28,000

Individually, the pay gap can be explained by:

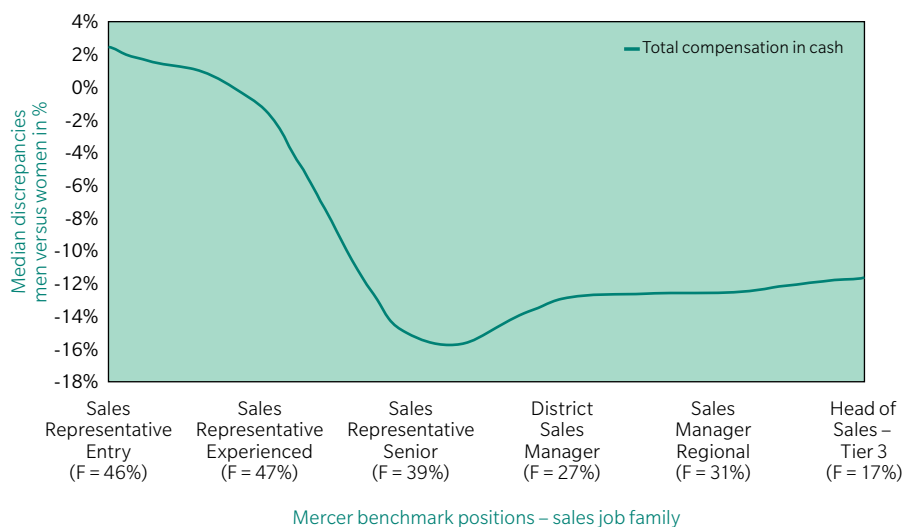
- Job content and level
- Different experience (age, tenure, etc.)
- Note: The impact of seniority can also be calculated directly in case of seniority premiums (e.g.: 1% per year after 2 years – here: 10%)

As a result, a method is needed to measure, on a reliable basis, the proper weights of relevant criteria in the pay gap.

Age and seniority, as well as level of qualification, can be much more useful tools in predicting compensation levels throughout a person’s career. However, they do not operate in isolation. In the example on page 3, based on a Mercer remuneration data analysis² conducted in France, you can follow clearly the wage differentials throughout the career history of men and women within a corporation. Figure 2 looks at the sales function: at entry level, the proportion of male versus female employees is roughly equal and so are the salaries. After a few years, however (and particularly between the ages of 30 and 40), women may reduce or even cease their activity when they have children and are less likely to be considered for promotions. Thereafter, they will be unable to catch up with their male colleagues, in terms of both compensation and career progression.

Figure 2

Evolution of Compensation Discrepancies Between Men and Women, by Level of Responsibility



COMPENSATION ANALYSIS BASED ON PRINCIPAL COMPONENTS ANALYSIS

Any pay equity approach must begin with a thorough analysis of compensation approaches. The traditional method of comparing median salaries by job groups fulfils the immediate legal obligations set out by French legislation. However, it does not provide a full picture for understanding the causes of the potential gender discrepancies in pay rates. Nor can it provide sufficient detail for an effective action plan to close the gap, adapted to the company’s specific structure and culture.

A more rigorous research method is required, allowing for proper weighting of all the criteria relevant to the pay gap. For instance, the three factors that seem to explain pay differentials most accurately in France are age, professional work experience and tenure within the branch or department of the organisation – gender and performance reviews do play a role, but one of less importance.

The Principal Components Analysis (PCA) methodology used by Mercer was originally developed in the US by Karl Pearson and Harold Hotelling some 80 years ago. It has since been perfected and is used largely as a tool in exploratory data analysis with multiple variables, as well as for making predictive models. Multiple regression analysis enables researchers to investigate the link between a dependent variable and a set of independent variables. The impact of one factor, therefore, does not change, even when we add other factors to the analysis.

In the case of compensation analysis, companies must fulfil the following requirements to enable a successful PCA result:

- Job cluster units of analysis (job families, job groups, job categories or banding)
- Compensation components to analyse (base salary, variable pay, bonuses, etc.)
- Factors (such as gender, tenure, age, performance assessments, qualifications and promotions) that could explain pay discrepancies

Of these three elements, the first one is the most important. It is critical to make the correct choice regarding the level of granularity or detail for analysis. The sample size has to be sufficiently large (preferably 20 or more people), homogeneous in terms of functions and hierarchical levels, and well-balanced in terms of gender. In some cases, statistical constraints may make it necessary to revert to a less precise level of analysis (moving from job levels to job groups, for example).

CASE STUDY

STUDY OF POTENTIAL PAY GAPS REVEALS THE NEED FOR EFFICIENT TOOLS AND PROCESSES AT VEOLIA

Since 2008, Veolia Group has been committed to promoting diversity at all levels within the organisation, putting in place an ambitious action plan that has been recognised at a national level through the award of the Diversity Certificate in 2010. Eric Bachelereau, Senior Vice President, Deputy CHRO for Veolia Environnement, shares his company's most recent efforts towards ensuring that pay equity is achieved.

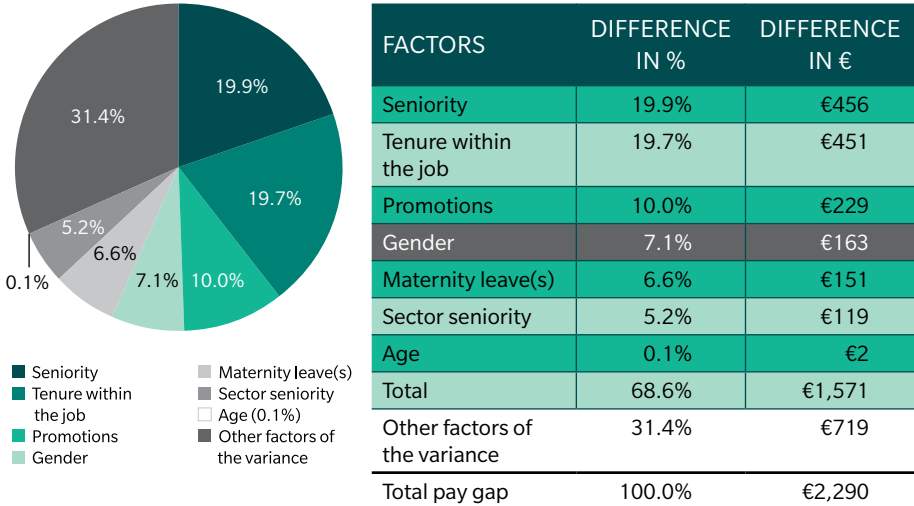
"Given the new rules in place in France regarding gender pay equity, in 2012, we decided to launch a pre-study to determine whether such a gap existed within our organisation. We chose the Mercer PCA method and decided to focus first on senior executives, a population of 428 employees at the company headquarters. It became clear very quickly that the quality of the method is dependent on both the quality of the information provided and the accuracy of the granularity of the survey data.

"The first study has enabled us to better understand potential existing gaps in job categories or families, by age and by gender. Furthermore, it demonstrated the strong need to have both an efficient HR information system (HRIS) and a clear, well-maintained job weighting process that helps ensure that a clear classification system is in place. As a result, we have launched multiple action plans based on the issues identified through the PCA method and the potential weaknesses in our global HRIS. We have also discovered the power of statistics and the need to create consistent population groups.

"One shot is not enough. This method deserves to be repeated on an annual basis in order to ensure that we are developing real and accurate action plans – and not merely giving lip service in our corporate communications."

Our research within French companies such as Veolia (see the case study on page 4) or Coca-Cola Enterprise France has enabled us to identify the factors that lead to discrepancies in pay rates between women and men and weight them according to their relative impact. In the example below, we can see that, although the average annual pay gap between men and women for one particular job category is €2,290, once we examine the data more carefully, we discover that gender accounts for only 7.1% of the average difference. An undifferentiated approach to gender pay equity would see a company rush to repair the gap and most likely focus resources on the wrong elements, without taking into account the larger picture.

Figure 3
Principal Components Analysis



In this example, the average annual pay gap between females and males for one job category is €2,290:

- For 1,000 people, the cost of alignment would be €2,290,000/2 (if F/M = 50%/50%).
- But gender accounts for only 7.1% of the average difference (€163 versus €2,290); therefore, an alignment based on gender would only cost €163,000/2.

Throughout the compensation research that Mercer has conducted on behalf of clients in France, the gender element has rarely, if ever, accounted for more than 10% of the pay disparity. This should give pause for thought before jumping on the bandwagon of salary top-ups, which may solve the problem in the short term but do nothing to address more profound structural issues and which cannot lead to sustainable long-term development of professional equality.

CONCLUSION

If companies are serious about redressing the gender imbalance, they need to gain a better understanding of all the factors involved in creating these differences in compensation. The emphasis needs to be on career management, to ensure sustainable gender equity at each stage of the employment process (from recruitment to merit increases, promotions and job structures).

What our research made abundantly clear is that one element is particularly important for companies to get right before they can even attempt a compensation analysis: correct job levelling classification. It is essential to provide a robust framework for reference and comparison. Whatever classification system is chosen (job grade, job group, position classes, bands), it has to be applied consistently throughout the organisation and maintained regularly.

Finally, the mandatory annual review of pay equity should not be viewed as just another legislative burden. Instead, it offers companies the unique opportunity to review their compensation policies and practices and design a truly holistic reward policy. The PCA method equips them with excellent causal data to prepare strong action plans for collective bargaining and, in the long term, to become an employer of choice.

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