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**Submitted to the  
U.S. House Financial Services Committee  
Subcommittee on Diversity and Inclusion**

**Hearing on  
“Closing the Racial and Gender Wealth Gap Through Compensation Equity”  
Thursday, April 29, 2021**

**Introduction**

Chairwoman Beatty, Ranking Member Wagner, and members of the U.S. House Financial Services Subcommittee on Diversity and Inclusion (the “Subcommittee”), thank you for the opportunity to testify before the Subcommittee today and for holding this important and timely hearing.

At the Society for Human Resource Management (SHRM), we strive to create better workplaces where employers and employees thrive together. Our vision is to build a world of work that works for all. This vision cannot be realized if there continue to be inequities in compensation and pay. SHRM’s over 300,000+ HR and business executive members, serving more than 115 million workers and their families, sit at the intersection of work, workers and the workplace. Our members are directly responsible for developing and implementing compensation packages to recruit and retain top talent.

Though I’ve been working since the age of 14, it’s only been in the last five years that I have come to fully understand the multiple facets of total compensation. That is mainly due to the fact that in that time, I’ve served as a general counsel with oversight for HR, an interim Chief Human Resources Officer, and currently as an executive with oversight for multiple divisions and multiple people. As a people manager committed to ensuring equitable pay for my employees, as a recruiter working to maintain a diverse and inclusive environment, and as a friend of other female executives, my experience has become even more nuanced.

I’ve been fortunate to have had these experiences as I continue to navigate my way and the way of others through the workplace, but I am keenly aware that many more people don’t have this exposure and experience. We all need to do a better job shedding light on how complex compensation is, and why it must be addressed with a lens toward the employee, the employer

and the marketplace as a whole. Therefore, my intention for this testimony is to educate the Subcommittee and others with interest on:

- a. Compensation *versus* total compensation,
- b. Effective compensation practices, and
- c. The importance of having good compensation practices to dismantle compensation inequities—especially today, as we are battling a deadly virus while also starting to formulate strategies for an economic recovery.

Additionally, I hope my testimony and the input from the other witnesses will provide a better understanding of how much of the pay disparity between groups is attributable to inequity, legitimate pay practices, the individual’s ability to negotiate pay, an individual’s time away from the workforce or other workplace dynamics.

### **Compensation versus Total Compensation**

As the voice of all things work, workers and the workplace, SHRM equips HR professionals with resources such as research, toolkits, best practices and much more. In fact, SHRM offers over 2,000 different types of resources on the topic of compensation. To address questions on compensation, SHRM has created an “Introduction to the Human Resources Discipline of Compensation” toolkit.<sup>1</sup> This toolkit focuses on the various forms of compensation that employers use to attract, recognize and retain talent.

**Direct compensation** refers to wages and salary paid by employers to employees in exchange for work. This type of Direct Compensation is also known as “base pay.”<sup>2</sup>

For base pay to be effective, both the organization and employees must view it as being internally equitable, externally competitive, affordable and cost-effective, legal and defensible, understandable, and appropriate for the organization and for the workforce.<sup>3</sup> Base pay is the foundation of total compensation because it establishes the standard of living for employees. It also serves as an indication of the value the organization places on the role each employee plays and on the contributions each employee makes.<sup>4</sup>

Another form of Direct compensation is variable pay in the form of short- and long-term incentives, such as cash bonuses, commissions and company stock awards. In most short-term variable pay plans, participants have a target—typically a percentage of base pay—that is paid out when the individual, team, business unit or organization meets a goal or combination of goals.<sup>5</sup> Long-term incentive plans are usually utilized to retain key employees, often executives, by vesting a percentage of the plan award over several years. In addition to cash plans,

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<sup>1</sup> See SHRM online toolkit “Introduction to the Human Resources Discipline of Compensation” (May 5, 2017), <https://www.shrm.org/resourcesandtools/tools-and-samples/toolkits/pages/introcompensation.aspx> (last visited April 22, 2021).

<sup>2</sup> *Id.*

<sup>3</sup> *Id.*

<sup>4</sup> *Id.*

<sup>5</sup> *Id.*

employers can choose from a variety of stock-based plans, including stock options, restricted stock and performance-based stock plans.

A SHRM article on the value of stock-based incentives being overlooked, told the story of an employee who left one company to accept a job with another firm offering a \$20,000 pay increase.<sup>6</sup> In doing so, that individual left behind unvested stock options his employer had awarded him as part of a stock-based incentive plan. The value of those options was more than **\$200,000**.<sup>7</sup> The reason this employee unintentionally left this compensation on the table was because he was not educated on the value of his stock options.

An additional element of direct compensation is when employees are paid a premium over their regular wages and incentives.<sup>8</sup> Organizations often pay a premium to employees who are required to work under nonstandard working conditions, such as evening or night shifts; who work in unusually cold, warm or dangerous environments; who perform a lead function; or who are on call after regular working hours for emergency or highly specialized situations.<sup>9</sup>

Next, is the development of a **compensation philosophy**. This is a statement about how the organization manages compensation. It explains the “why” behind employee pay and creates a framework for consistency.<sup>10</sup> Employers use their compensation philosophy to attract, retain and motivate employees.<sup>11</sup> The philosophy is based on many factors, including the company’s financial position, the size of the organization, the industry, business objectives, market salary information, the level of difficulty in finding qualified talent and the unique circumstances of the business.<sup>12</sup> Organizations have several options for setting wages in relation to the relative market: (1) match the market, (2) lead the market, (3) lag the market or (4) a combination of the three.<sup>13</sup> Each option has advantages and disadvantages:

**Match the market:** This compensation structure enables the organization to remain competitive, thereby improving its ability to attract and retain top talent; however, this

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<sup>6</sup> See *SHRM Online* article “Value of Stock-Based Incentives Overlooked,” Joanne Sammer (April 7, 2014), <https://www.shrm.org/resourcesandtools/hr-topics/compensation/pages/stock-incentives-value.aspx> (last visited on April 26, 2021).

<sup>7</sup> *Id.*

<sup>8</sup> See SHRM online toolkit “Introduction to the Human Resources Discipline of Compensation” (May 5, 2017), <https://www.shrm.org/resourcesandtools/tools-and-samples/toolkits/pages/introcompensation.aspx> (last visited April 26, 2021).

<sup>9</sup> See SHRM online HR Q&A “What Are Some Common Types of Differential/Premium Pay?”

<https://www.shrm.org/resourcesandtools/tools-and-samples/hr-qa/pages/commondifferentialpremiumpayandwhenofferedbyemployers.aspx> (last visited April 22, 2021).

<sup>10</sup> See SHRM online HR Q&A “What Is a Compensation Philosophy? What Should Be Included in a Compensation Philosophy?” <https://www.shrm.org/resourcesandtools/tools-and-samples/hr-qa/pages/compensationphilosophy.aspx> (last visited April 22, 2021).

<sup>11</sup> *Id.*

<sup>12</sup> *Id.*

<sup>13</sup> See SHRM online HR Q&A “Planning & Design: Compensation Philosophy: What Are the Advantages or Disadvantages of a Lead, Match or Lag Compensation Strategy?” (April 24, 2018), [https://www.shrm.org/resourcesandtools/tools-and-samples/hr-qa/pages/cms\\_024253.aspx](https://www.shrm.org/resourcesandtools/tools-and-samples/hr-qa/pages/cms_024253.aspx) (last visited April 26, 2021).

structure places employers in a position of having to play catch-up and requires larger adjustments to the compensation structure during tight labor markets.<sup>14</sup>

**Lead the market:** This compensation structure may increase the supply of candidates, selection rates of qualified applicants, morale and productivity, while decreasing employee turnover and discouraging unionization efforts. However, this structure will increase overall labor costs.<sup>15</sup>

**Lag the market:** This compensation structure is not a common structure as organizations that adopt it are much more susceptible to fluctuations in the labor market; risk greater difficulty in retaining and attracting highly qualified candidates; and typically experience higher rates of employee dissatisfaction, poor performance and turnover. These employers may attempt to reward employees in nonmonetary ways to minimize dissatisfaction and turnover.<sup>16</sup>

There is not one structure that will work for every employer, and organizations will need to ensure that the approach they choose matches their mission, vision and culture, in addition to supporting the overall business strategy, attracting qualified applicants, and retaining top employees who are drawn to the mix of work and rewards of that employer.<sup>17</sup>

As noted earlier, HR professionals are directly responsible for designing and implementing compensation strategies. Larger employers frequently have a compensation department within the HR department, staffed with one or more compensation analysts (also called specialists or consultants).<sup>18</sup> In addition, compensation philosophies are typically developed by HR professionals in collaboration with the executive team; therefore, it is HR professionals who are responsible for guiding leadership in setting equitable compensation standards. It is important to review the organization's compensation philosophy periodically and update it based on current factors affecting the business, in addition to communicating the philosophy, policy and overall program to employees.<sup>19</sup> This builds transparency and trust with employees.

Benefits are an important aspect of total compensation that many may overlook. SHRM conducts an annual employee benefits survey of its 300,000+ members that includes hundreds of different benefits offerings, including health care and health services benefits, investment and retirement benefits, leave and flexible working benefits, family-friendly and wellness benefits, and

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<sup>14</sup> *Id.*

<sup>15</sup> *Id.*

<sup>16</sup> *Id.*

<sup>17</sup> See SHRM online HR Q&A "Planning & Design: Compensation Philosophy: What Are the Advantages or Disadvantages of a Lead, Match or Lag Compensation Strategy?" (April 24, 2018), [https://www.shrm.org/resourcesandtools/tools-and-samples/hr-qa/pages/cms\\_024253.aspx](https://www.shrm.org/resourcesandtools/tools-and-samples/hr-qa/pages/cms_024253.aspx) (last visited April 26, 2021).

<sup>18</sup> See SHRM online toolkit "Introduction to the Human Resources Discipline of Compensation" (May 5, 2017), <https://www.shrm.org/resourcesandtools/tools-and-samples/toolkits/pages/introcompensation.aspx> (last visited April 26, 2021).

<sup>19</sup> See SHRM online HR Q&A "Planning & Design: Compensation Philosophy: What Are the Advantages or Disadvantages of a Lead, Match or Lag Compensation Strategy?" (April 24, 2018), [https://www.shrm.org/resourcesandtools/tools-and-samples/hr-qa/pages/cms\\_024253.aspx](https://www.shrm.org/resourcesandtools/tools-and-samples/hr-qa/pages/cms_024253.aspx) (last visited April 26, 2021).

programs and services benefits such as professional development.<sup>20</sup> In each of these categories, the employer has a role in not only offering the benefit, but also contributing to the benefit. For example:

- **Health Care:** According to SHRM’s 2019 Employee Benefits Survey, 83 percent of employers share the cost of health insurance premiums with employees.<sup>21</sup> Additionally, an employer may contribute to a health savings account (HSA). Employers believe that health care and retirement benefits are the most important to their workforce. Organizations are most likely to increase health-related and wellness benefits.<sup>22</sup>
- **Retirement:** An employer may match a percentage of employee contributions. Currently, over 50% of employers contribute to retirement savings.<sup>23</sup>
- **Education & Financial Wellness:** An employer may provide tuition assistance or contribute to a 529 plan. More than half of employers offer tuition assistance.<sup>24</sup>
- **Leave benefits:** An employer may offer paid parental leave above what is required by state or federal laws or paid elder care leave that supplements state and federal laws. Paid maternity leave is offered by 34% of organizations and paid paternity leave is offered by 30% of organizations, while open (unlimited) leave is uncommon (6%).<sup>25</sup> SHRM is part of this 6% with its open leave policy implemented in 2019.
- **Family-friendly benefits:** An employer may provide emergency child care services or offer a subsidized child care center or program. A quarter of organizations allow parents to bring children to work in an emergency.<sup>26</sup>

All of the above-mentioned examples equate to money that an employer would have contributed to the overall health and wellness of an employee, which is included in the employee’s overall compensation package.

### **Effective Compensation Practices**

Effective compensation practices should enlarge the talent pool to serve diverse markets in addition to supporting better personal and team efforts. According to SHRM research, more than 1 in 5 American workers feel their organization doesn’t use fair criteria to make advancement and promotion decisions.<sup>27</sup> To be fair and inclusive, employers must use consistent, transparent

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<sup>20</sup> Executive Summary, SHRM 2019 Employee Benefits Survey.

<sup>21</sup> *Id.*

<sup>22</sup> *Id.*

<sup>23</sup> *Id.*

<sup>24</sup> *Id.*

<sup>25</sup> *Id.*

<sup>26</sup> *Id.*

<sup>27</sup> SHRM Post Election/American Workforce Roadmap Study (February 2021).

and actionable compensation practices every day. Examples of some of these practices include the following<sup>28</sup>:

- Being transparent and clear in communications to all employees about how individual pay decisions are determined.
- Providing hands-on training to supervisors and hiring managers to ensure that they manage disciplined, objective pay practices.
- Educating employees about the organization's compensation package, as this will assist employees in making more informed decisions that do not result in an employee leaving money on the table.
- Conducting comprehensive pay equity reviews that encompass base pay, incentive pay, benefits and total compensation.
- Examining promotion decisions for evidence of "pay bias" (i.e., awarding promotions based on salary history rather than performance and fit with position).
- Closely monitoring the market to ensure that the organization's compensation philosophy supports the organization's mission and values while also attracting and retaining talent.
- Improving communication practices to ensure that employees and supervisors have a clear understanding of fair pay practices.

### **Compensation Equity**

As the Biden Administration advances its comprehensive equity agenda, the workplace should be an important component. It is the place where people spend most of their time, and work is the gateway to addressing economic disparities. Therefore, HR professionals have a pivotal role in advising on systemic compensation equity changes. This is important as SHRM research found that nearly 1 in 5 American workers don't trust that their employer pays people equally for equal work, regardless of gender, race or ethnicity<sup>29</sup> and more than 1 in 5 organizations (22%) plan to conduct a voluntary pay audit to proactively assess for any gender-related disparities in compensation in 2021<sup>30</sup>.

There are several factors driving compensation inequity, including recruitment, job descriptions, performance reviews, age/tenure, incentive pay, education level(s), promotion opportunities, socio-demographic factors, industry and career path(s).<sup>31</sup> Compensation equity issues existed prior to the COVID-19 pandemic, and the pandemic has exacerbated them.

### **Conclusion**

We have come a long way in addressing pay equity and prohibiting wage discrimination since the enactment of the Fair Labor Standards Act of 1938, Title VII of the Civil Rights Act of 1964, and the Equal Pay Act, but SHRM research has shown that we still have a long way to go for total compensation equity. The path toward equity requires more than recognizing that there are

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<sup>28</sup> ADP Research Institute "Rethinking Gender Pay Inequity in a More Transparent World" (January 21, 2019), <https://www.adpri.org/wp-content/uploads/2020/08/21031403/Rethinking-Gender-Pay-Inequity-in-a-More-Transparent-World-Full-Report.pdf> (last visited April 26, 2021).

<sup>29</sup> SHRM 2021 HR Lookahead data points COVID-19 (March 2021).

<sup>30</sup> SHRM Post Election/American Workforce Roadmap Study (February 2021).

<sup>31</sup> ADP Research Institute "Rethinking Gender Pay Inequity in a More Transparent World" (January 21, 2019), <https://www.adpri.org/wp-content/uploads/2020/08/21031403/Rethinking-Gender-Pay-Inequity-in-a-More-Transparent-World-Full-Report.pdf> (last visited April 26, 2021).

systemic gaps that adversely impact one group over another and then addressing them proactively. It requires more directed education on the compensation process, increased engagement with compensation specialists and HR professionals, and an understanding of how to leverage one's talent through personal advocacy when armed with this information and allyship within the organization.

Every day, SHRM's 300,000+ HR professional and business executive members are working toward this huge goal of ensuring compensation equity. SHRM will continue to educate and equip its members in accomplishing this goal. However, we also need you, the lawmakers, to make educating the American public about the complexities of compensation equity a priority. Thank you for the opportunity to serve as a witness before the Subcommittee. I look forward to your questions.