

P&G's Take on...

Pay Equity



Fair pay practices and an equitable workplace are core P&G beliefs and essential to the Company's long-term success. P&G's fair pay practices are based on **(1)** a clearly articulated compensation philosophy, **(2)** a well-defined set of compensation policies and structure, and **(3)** robust execution and pay equity audit processes.

To ensure P&G's pay system is working as intended, we conduct pay equity audits to discover any gender biases in our pay system—intentional or unintentional—that could lead to incidents of appreciable gender pay inequities. The reviews also include audits on performance rating distribution, hires, terminations, promotions, and long-term incentive plans.



P&G's Pay Equity Audit Process

Our audit process is designed for objectivity, leveraging industry-standard technology and externally-validated methods. We run a series of multiple salary regressions to measure any pay differences that remain (between men and women) after having accounted for all legitimate drivers of pay—like job band, performance, and experience at job band.

The rigorous statistical analysis allows us to determine confidently if we have any pay differences not accounted for by legitimate drivers of pay.



More Accurate, More Rigorous

We believe this methodology is more accurate and rigorous than some of the existing and emerging analysis and reporting methods you may read or hear about. Some of those rely primarily on simple descriptive statistics, like comparing average or median pay differences between men and women or minorities without properly controlling for all relevant drivers of pay, including comparing pay for significantly different roles. Clearly, where legal requirements may require us to report using a different method, we have deliberately set our internal standards high.

While these methods can provide insight into any raw pay gap that might exist, they are misleading, as they are inconsistent with our compensation philosophy of paying competitively based on job and performance—two key drivers of pay at P&G.



Our Global Approach

This proven, objective auditing model is also being expanded globally using the same standards as the US, and has already included countries such as Canada, Mexico, Germany, UK, Switzerland, and Australia. **Consistent with the US findings, these additional analyses thus far have revealed no appreciable gender-related pay differences.**

We will continue to expand this audit to other countries. Over time, and as we expand our audits, we will remedy any issues, should we find them.



US Audit Conclusions

The 2017 US audit revealed **no appreciable pay gap between female and male employees with similar roles and performance.**



Pay Equity Q&A



1. Does “Gender/Ethnicity Pay Inequity” and “Gender/Ethnicity Pay Gap” mean the same thing? If not, what’s the difference and should they both be tackled?

No, it does not. Gender/Ethnicity pay inequity refers to the biases that exist within pay systems causing employees to be paid unfairly for the work they do because of their gender or ethnic origin. The gender/ethnicity pay gap, on the contrary, refers to the difference between male and female or between ethnic minorities and white employees’ average or median earnings. The Gender/Ethnicity pay gap is caused by different reasons, of which gender/ethnicity pay inequity could be one. Other reasons could be due to education, career interruptions, negotiation skills, and representation differences at different levels and in different functions.

2. Does “Pay Equity” mean “Equal Pay for Equal Work”?

No. Pay Equity does not mean that employees doing similar work must be paid the same. What it does mean though is that employees who do substantially similar work are paid fairly for the work they do. This also means that employees who do similar work can be paid differently provided that the pay differentiation is due to legitimate factors such as job-related skills, job/company tenure, salary band, performance/productivity, prior work experience, work location, external job/skill demand, education, etc. Gender and/or race or ethnic origin, however, are not legitimate factors to differentiate pay.

3. You mention that there are no appreciable differences in gender-based pay in the US. Did you also review pay equity in the US based on ethnicity?

Yes. Similar to the gender findings, we did not find any appreciable pay differences related to ethnicity.

4. What do you mean by ‘appreciable differences.’

There are two tests to determine if we can conclude we do not have pay bias. One is that when we analyze the data, it must be statistically significant. That requires a sufficient sample size, and the high standard of a 95% confidence level. Then, knowing nothing will ever be exact, we test to see if any difference is meaningful or appreciable that would indicate some remedial action was warranted. As used by outside agencies, any differences below 3% are generally regarded as not appreciable.

5. If we discover a pay inequity, how will it be remediated?

When statistically significant gender and/or ethnic biases are observed in the population sample, further analysis will be conducted and carefully examined. Then, salary plans will be scrutinized to determine whether any individual or systemic adjustments in our salary plans and system would be warranted to address the inequity.

6. I understand the US and some other countries have been analyzed already. When can I expect my country to be done?

Analyzing a country’s gender/ethnicity pay practices is a complex and complicated matter that must be done with utmost care and attention. It is our objective to have all countries (excluding plants) analyzed by end of FY 17/18. Plants will be studied separately given that their pay system design is often location-specific and different from the one that applies to A&Ts and managers. Plant analyses are targeted for completion by end of FY 18/19.

