



HOW EMPLOYERS CAN ROOT OUT THE INFLUENCE OF UNCONSCIOUS BIAS IN COMPENSATION DECISIONS

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How Employers Can Root Out the Influence of Unconscious Bias in Compensation Decisions

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Around this time of the year, many employers determine and distribute year-end bonuses. While evaluating and rewarding employees based on merit may seem fair, merit-based practices may actually decrease workplace equity if unconscious bias is a factor in bonus decisions.

While research indicates that most people harbor at least some unconscious biases and that these biases are not always bad, a problem occurs when our unconscious biases lead us to favor one group in the workplace over another based on a protected category. State and federal laws expressly prohibit employers from giving a bonus to one employee over another because of that employee's race or gender. Nevertheless, studies show that unconscious bias, if not acknowledged, can result in unlawful bonus decisions.

Research on the Effects of Unconscious Bias

Emilio J. Castilla, Professor of Management at the Massachusetts Institute of Technology Sloan School of Management, examined the gender and race implications of ostensibly impartial, merit-based employer bonus systems. Professor Castilla concluded that, despite the

intent behind them, there is a persistent problem with strictly merit-based compensation practices. Women and minority men in the same organization, in the same job, and with the same supervisor, according to his research, receive lower salary increases than white men—even with the same performance evaluation scores.

In one study, participants were asked to assume managerial roles, review profiles of employees (male and female), and make decisions regarding employee bonuses. When merit was emphasized in the instruction to distribute a bonus, participants provided, on average, higher rewards to male employees over equally qualified female employees (i.e., those in the same job, with the same supervisor, and with equivalent performance evaluations).

Professor Castilla's study concluded that by adopting a purely merit-based bonus or compensation policy in which race, gender, and social biases are not acknowledged, biases and stereotypes are likely to influence outcomes.

Castilla's research also concluded that when compensation systems are strictly merit-based, employees are inclined to believe they are being more objective than they really are. When individuals think their actions are unbiased, fair, or objective, they are inclined to believe it is unnecessary to acknowledge or address unconscious biases. It is therefore no surprise that in an environment where management persuades employees that performance is evaluated based strictly on merit, a supervisor's own unconscious biases are likely to influence the decision-making process.

Employer Takeaways

The conclusions indicated by this research do not mean companies should give up meritocratic values. Instead, companies may take steps to increase awareness of bias and make the process by which raises and bonuses are awarded more transparent.

If unconscious bias can produce discriminatory outcomes, the logical question to ask ourselves is, how can we reduce or eliminate these patterns? To address unconscious bias—and other evaluation missteps—in year-end bonus decisions, employers may want to consider the following practices:

- Ensure that pay and bonus policies are legitimately related to performance and are nondiscriminatory in their application.
- Train all supervisors and managers to avoid wage discrimination and to identify unconscious bias.
- To the extent possible, increase transparency in salary guidelines and requirements for bonuses. Employers may want to clearly convey these guidelines and requirements to employees so that they understand the employer's expectations, which must be met to obtain a raise or bonus.
- Educate the members of your team—before beginning the evaluation process—on using a consistent rubric to evaluate the employees they supervise and adopt consistent terminology across the board in writing performance reviews. Define the evaluation criteria and discuss it with your decision-making team so that the evaluators are defining terms similarly and biases can be identified and discussed. Avoid the use of subjective criteria in evaluating candidates.

- Use a diverse team of reviewers to determine bonuses. The more diversity there is in the decision-making process, the more likely you are to identify and correct bias before it becomes a discriminatory practice.
- Pay attention to the possibility that you are imposing additional requirements on some employees. Are you requiring some employees to show more to meet a standard and giving a pass to others? Take note if you recognize patterns in the types of employees that fall into these categories.
- Eliminate the use of subjective criteria, such as an employee's personality traits, and instead focus on skills or performance, in all evaluations. For example, reviewers will want to avoid terms or phrases like "good employee," "bad employee," or "lazy person."
- Examine your evaluation criteria to ensure that employees of protected categories are not judged on the basis of stereotypes. For example, language that suggests women will be promoted if they are liked while men will be promoted if they achieve results, and language that suggests that an African American employee will be rewarded for being articulate or an Asian American employee will be rewarded for being outspoken, is potentially problematic. One way for reviewers to discover an unconscious bias is to ask themselves if they would have made the same comment if the employee was of a different race, gender, ethnicity, etc.
- Ensure that employees are given equal opportunities to succeed, and make sure to track which employees are invited to marketing, networking, and training events to ensure that

all are given a realistic opportunity to develop business and their skills. This also helps you to evaluate if your marketing, networking, and training events favor some protected groups over others (such as favoring men over women).

- Document decisions regarding pay, bonuses, and commissions, and monitor them for patterns based on protected categories as defined by applicable state and federal pay equity laws.
- Be humble. Developing a little humility about how little we know about people and groups can be a good step toward real impartiality.
- If you are concerned that unconscious bias may be affecting your pay practices, you may want to conduct a pay equity audit.

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