



**FAIR PAY
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LAB**

▶ ▶ ▶ ▶ **FAIR PAY AS A STANDARD**

**Study on the transferability of the
Icelandic *Equal Pay Standard ÍST85:2012* to Germany**

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Abstract

Iceland has chosen an unprecedented path with the legal introduction of an auditing and certification requirement for remuneration systems in companies and organizations with 25 or more employees. In 2012, the Icelandic *Equal Pay Standard ÍST85:2012* was registered; implementation has been legally mandatory for companies in Iceland with 25 or more employees since 2017. The *Equal Pay Standard* is based on the globally established quality management standard *ISO 9001*. Implementation of the standard requires uniform compensation system for all employees within an organization, documentation of all pay decisions, a job evaluation system and a regular (at least annual) review of pay gaps and the entire compensation system. While there was initial criticism of the legal introduction of the standard, even those originally skeptical organizations are now in favor of applying the *Equal Pay Standard* following positive experience with its implementation. The criticisms of the statutory introduction of an auditing requirement are summarized as follows:

- ▶ Too much effort in implementing the standard and too high costs for external certification on the part of the organization
- ▶ The text of the standard lacks benchmarks for closing wage gaps or analyzing unconscious biases
- ▶ The Icelandic *Equal Pay Standard* is prescribed by law in its current form and cannot be adapted or further developed without changes to the legislation
- ▶ The Icelandic *Equal Pay Standard* in its current form is no longer compatible with the *International Organization for Standardization* (ISO) management standards.

Today, the legal introduction of mandatory auditing in Iceland is considered a success. The standard provides companies with an instrument for regularly and systematically reviewing their compensation structures. This creates a formal framework in the discussion about auditing procedures and compensation analyses and provides companies with an incentive to analyze their compensation structures on a regular basis. This success is also based on the legal obligation to apply the *Equal Pay Standard*. If the application of the standard were voluntary – as is common with national and international standards – a far smaller number of companies would be certified, as the pilot project following registration of the standard has suggested. In Iceland –

as in Germany – there is an increasing discussion regarding the under-valuation of female-dominated jobs. The application of the *Equal Pay Standard* beyond the organizational level, e.g., on an industry or sector level, could guide a re-evaluation of activities here.

From a German perspective, the application of a *Fair Pay Standard* based on Icelandic *Equal Pay Standard ÍST85:2012* is viewed positively by companies and trade unions. A *Fair Pay Standard* based on the Icelandic model as a sub-legislative measure offers the opportunity to calculate and close other pay gaps in addition to that relating to gender, for example age, tenure, LGBTIQ+ or ethnicity, while also assessing how different causes for discrimination in pay are inter-related and cumulative. Registration of a *Fair Pay Standard* is possible with both the *German Institute for Standardization* (DIN) and the *International Organization for Standardization*. There is support for an international approach, as closing pay gaps is a globally recognized challenge that has also found its way into the United Nations' Sustainable Development Goals (SDG).

INTRODUCTION

In Iceland, equality and fair pay have for many years been an integral part of public debate in sociopolitical economic and political efforts to find constructive and practicable solutions to eliminate existing gaps. The first steps toward fair pay were taken in Iceland as early as 1961 with the Act on Equal Treatment for Women and Men. This was followed in 2008 by the Act on Equal Status and Equal Rights of Women and Men (Government of Iceland, 2021). In 2017, the latter Act was amended, marking a fundamental change for companies in implementing fair compensation systems. In Article 19, certification to *Equal Pay Standard ÍST 85:2012*¹ was made obligatory for companies with 25 or more employees. At the end of 2020, the Act on Equal Status was replaced by the Act on Equal Status and Equal Rights Irrespective of Gender (Government of Iceland, 2020). The 2020 recast streamlined the content of the Act while also introducing the concept of fair pay beyond the binary gender dimension.

Equal Pay Standard ÍST85:2012 was developed by the Icelandic government together with employers and trade unions back in 2012. Modeled after the *ISO 9001* and *14001* standards, the Icelandic standard forms the basis for a cross-industry auditing and certification system. The Icelandic *Equal Pay Standard* is based on the specification of a management system for fair pay and builds in flexibility for companies to find their own ways to define how to apply a fair pay system. In Iceland, companies must prove that they offer fair pay as part of the *Plan - Do - Check - Act* system. Regulated self-regulation is the focus of the legislation (Icelandic Ministry of Welfare, 2012). Since its introduction, the Icelandic *Equal Pay Standard* has been considered the benchmark in fair pay, according to the World Economic Forum (2021b). This report considers the basis for this assessment, how the *Equal Pay Standard ÍST85:2012* is applied in practice and what opportunities and challenges the procedure offers from an international, but particularly a German perspective.

¹ In total, approximately 1,180 companies and organizations with 147,000 employees, representing around 80 percent of the workforce in Iceland are affected by the legal requirement for certification to the Icelandic Equal Pay Standard (Government of Iceland, 2021).

The growing need for companies to address fair pay is not confined to Iceland: it is a global phenomenon. The reasons for this include evolving legal frameworks, greater ESG reporting² and increasingly visible initiatives in diversity and inclusion. Management standards such as *ISO 9001* for quality management, *ISO 14001* for environmental management and *ISO 26000* for corporate responsibility provide an overarching opportunity for organizations to harness standardization and comparability in the measurement of key figures and reporting, to continuously improve internal and external structures and to establish continuous monitoring.

Against this backdrop, there is a growing need in companies to measure fair pay and close any identified pay gaps. In addition to the growing pressure from legislation and reporting, companies and organizations are facing rapidly changing demands on activities and people due to increasing digitalization and on-going flexibilization in the world of work. There is greater competition for well-trained specialists and increasing efforts to create inclusive working environments. A fair corporate culture and non-discriminatory compensation structure can be levers and catalysts in company development. Management standards are used as a means of countering external and internal changes and challenges. But how to deliver transformation? Can the Icelandic approach of a *Fair Pay Standard* based on regulated self-regulation addressing the challenges of the workplace of the future serve as a blueprint for other countries? These questions are considered in this report.

The aim of this exploratory report is to analyze the Icelandic *Equal Pay Standard* and evaluate its practical implementation while assessing if and how exactly the standard can be used outside Iceland to establish fair pay structures, close existing wage gaps and address current developments in the world of work.

2 In comparison, around 14 million employees in Germany can file a claim for information under the Pay Transparency Act (German Bundestag, 2017), which represents around 40 percent of all employees (Federal Statistical Office, 2022).

▶ ▶ ▶ ▶ ▶ **DATA COLLECTION**

The data basis of this report is based on three pillars:

- 1) A comprehensive **literature analysis** presents the current state of research on the gender pay gap, analyzes recent legislative changes and summarizes the current state of discussion in certification and job evaluation procedures in the area of pay analysis.

The literature analysis does not form part of the published report but may be obtained from the Fair Pay Innovation Lab on request.

- 2) An **online structured and quantitative company survey** (N = 69) asked whether companies and organizations calculate their pay gaps, whether they have been certified according to DIN or ISO standards and whether they would consider being certified to a *Fair Pay Standard*. The invitation to the survey was sent to 1,220 company representatives in Germany on April 15, 2021. The response period was designed to last four weeks. The results of the survey are not representative, but capture the mood across these companies. The questions asked in the survey can be found in Chapter 3.3.
- 3) The third pillar comprises **semi-structured and qualitative in-depth interviews with experts**. A total of 25 interviews were conducted for this study. The interviewees include stakeholders from Iceland reporting on their experiences with the implementation of the standard and companies and organizations in Germany that have already reviewed their compensation structures and thus have practical experience with standardization and certification in Germany. In addition, there are relevant labor market actors such as trade unions and employer representatives as well as representatives of certifying organizations. The anonymized findings from the interviews are included in Chapters 2, 3 and 4. A list of the interviews conducted can be found in the Appendix.

Icelandic *Equal Pay Standard ÍST85:2012*

“The Equal Pay certification process should increase overall job satisfaction and employees’ sense that the human resources management policies followed by the company are professional and raise managers’ awareness of staffing and pay issues, thereby fostering good relations with employees and facilitating decisions about wages. The result should be a more transparent and equitable wage system.”

(Government of Iceland, 2021)

In Iceland, companies and organizations with 25 or more employees are required by law to analyze their compensation structures and be certified according to the *Equal Pay Standard ÍST85:2012*. The aim of this legislation is to reduce and close the gender pay gap in Iceland. While the unadjusted gender pay gap in Iceland was over 20 percent in 2008, it had decreased to 12.6 percent by 2020 (Statistics Iceland, 2021b). In 2019, the adjusted gender pay gap was still 5.4 percent in the private sector, 3.4 percent for the public sector and 3.1 percent for municipal employees (Statistics Iceland, 2021a). By applying the *Equal Pay Standard*, the Icelandic government has set a goal of closing the remaining adjusted wage gap by 2022 (Wagner, 2018).

If the standard is understood and applied as a management system, the goal of certification is not simply fair pay, but to deliver an inclusive HR policy and corporate culture. Iceland follows the principle of regulated self-regulation whereby companies are legally obligated to implement fair pay and to be regularly audited, but they can choose for themselves the way in which they achieve this goal and opt for a system precisely suited to their circumstances. By the end of 2021, 347 companies had already been certified under the *Equal Pay Standard*, equating to around 97,000 employees in Iceland who work in certified organizations (Gender Equality Institute, 2021).³

► ► ► ► ► **FROM THE IDEA TO THE REGISTERED STANDARD**

The *ÍST85:2012 Equal Pay Management System – Requirements and Guidance* standard was published in December 2012 by Icelandic Standards, the Icelandic Institute for Standardization. Companies and organizations of all sizes and industries can apply the standard and become certified.

³ In total, approximately 1,180 companies and organizations with 147,000 employees, representing around 80 percent of the workforce in Iceland are affected by the legal requirement for certification to the Icelandic *Equal Pay Standard* (Government of Iceland, 2021).

The standard was developed by the Icelandic Ministry of Social Affairs in cooperation with the *Icelandic Confederation of Trade Unions* and the *Icelandic Confederation of Employers* as early as 2008. The Icelandic Standards institute has been actively involved in the process, establishing a technical group that continues to monitor the process today. In addition to the stakeholders, the expert group also includes representatives from the Ministry of Finance, the Icelandic Institute for Gender Equality and various government agencies, municipalities and companies (Ministry of Welfare, 2012). Cooperation from trade unions, employers and public offices as employers has guaranteed a high level of acceptance among all stakeholders involved from the outset (Wagner, 2018).

The *Equal Pay Standard* is based on the international standardization system and is comparable in structure to standards such as *ISO 9001* or *ISO 14001*. It describes a management process for introducing, implementing and evaluating fair pay structures. A holistic approach is taken in which salary structures and evaluation procedures are reviewed and certified. This means that no paths or benchmarks are prescribed; instead, companies and organizations can choose to follow their own path towards fair pay.

After the *Equal Pay Standard* was registered in 2012, a pilot project was immediately launched with companies and organizations to test the standard in practice. The Icelandic interviewees unanimously reported that although the standard found its way into broad public discussion, it was difficult to convince companies to join the pilot project. The reason for the skepticism was the fear among companies that the application of the standard would disproportionately increase the effort required for wage determination. A total of 12 companies and organizations were persuaded to apply the *Equal Pay Standard* and undergo certification. Again and again, companies dropped out or joined midway during the project, so that over a period of three years only two institutions completed the process: the insurance company VÍS and the Icelandic Customs Authority.

The pilot project has shown one thing above all: companies and organizations met the *Equal Pay Standard* and the corresponding pilot project with skepticism. The interviewees repeatedly point out that there was a long process of persuasion before companies and organizations recognized the value of systematically addressing their own compensation structures and were then able to implement certification. The most convincing aspect of certification to the *Equal Pay Standard* was the intention not only to implement

fairness in compensation structures, but also to verify this achievement. The fact that the standard is now a legal requirement is primarily due to the political will for change.

► ► ► ► ► **FROM VOLUNTARY APPLICATION TO LEGAL OBLIGATION**

In June 2017, the *Gender Equality Act No. 10/2008* was amended to make certification to the *Equal Pay Standard ÍST85:2012* mandatory as of January 1, 2018, for companies with an annual average of more than 25 employees. With the Act on Equal Status and Equal Rights Irrespective of Gender, the legislation on fair pay and the incorporation of the *Equal Pay Standard* were again enshrined in law at the end of 2020. A total of 1,180 companies and organizations (some 147,000 employees) are covered by the Act. This means that around 80 percent of Iceland's employees work in companies legally required to provide fair pay (Government of Iceland, 2021).⁴ With the change in the law at the end of 2020, Iceland will be the first country in the world to break away from the binary gender categories (male and female) that have so far shaped the discussion on fair pay. It also adds an exemption for companies and organizations with 25 to 49 employees. Organizations of this size can now comply with the law and receive confirmation of pay equity implementation if they submit documentation on their pay system for review without going through an external certification process. This is intended to reduce the administrative and bureaucratic burden on small organizations.

The Icelandic government has set specific deadlines for certification:

- Companies and organizations with an average of more than **250 employees:** by **December 31, 2019.**
- Companies and organizations with an average of **150-249 employees:** by **December 31, 2020.**
- Companies and organizations with an average of **90-149 employees:** by **December 31, 2021.**
- Companies and organizations with an average of **50-89 employees:** by **December 31, 2022.**
- Businesses and organizations with an average of **25-49 employees:** **Certification or Equal Pay confirmation by December 31, 2022.**

⁴ In comparison, around 14 million employees in Germany can file a claim for information under the Pay Transparency Act (German Bundestag, 2017), which represents around 40 percent of all employees (Federal Statistical Office, 2022).

Only after 2022 and the expiration of all deadlines will the law take full effect. To be able to measure its impact precisely, the Icelandic government has already announced that it will evaluate the law and repeat the evaluation every three years.

▶ ▶ ▶ ▶ ▶ **THE IMPLEMENTATION OF THE EQUAL PAY STANDARD IN
DETAIL**

The standard requires companies to implement a salary structure that allows the classification of all employees and all activities in the company. The choice of criteria for job classification and their weighting is left to the companies themselves. The standard also does not presuppose a uniform way of calculating or determining wages (Government of Iceland, 2021). Companies must devise and implement this system themselves so that it fits their portfolio and the activities they perform: this is what is verified and certified. This compensation system also includes the documentation of activity evaluation criteria, their application and review and the follow-up of compensation decisions.

The standard stipulates that salary systems must be made transparent so that employees can see and understand the criteria for job evaluation. However, this does not mean that individual salaries are to be disclosed. If statistics on remuneration systems are published, they should be designed in such a way that it is not possible to draw conclusions about individuals. In this way, the Icelandic system guarantees **process transparency**: decision-making on wages and salaries is transparent; employees can understand justifications and differences can be explained based on objective criteria that apply company-wide.

The standard and the associated certification process require companies to analyze their pay gaps annually. However, the *Equal Pay Standard* does not set an upper limit for pay gaps or penalties above a certain value of the company's internal pay gap. Rather, companies should be incentivized to close their gaps independently and keep them closed through their own pay system and analyses.

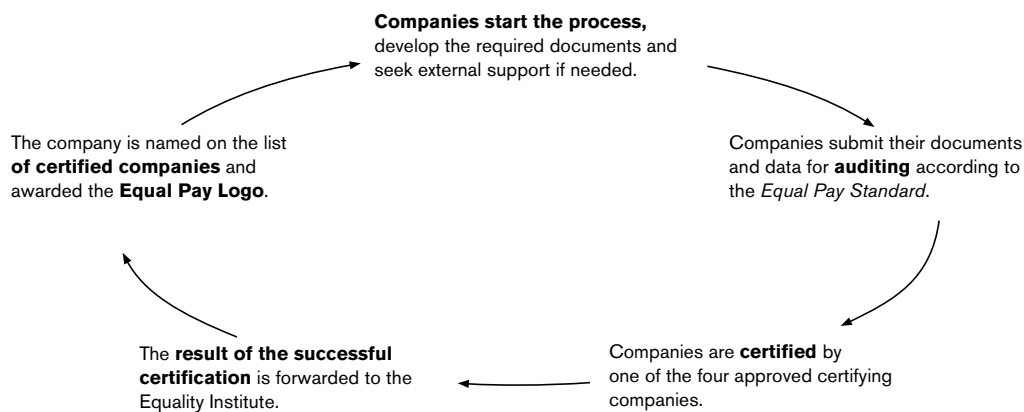
Companies seeking certification must submit the following documents and analyses and demonstrate how they document and implement their compensation processes:

- **Compensation Policy / Equal Pay Policy.** This document sets out the basic framework for implementing fair pay within the company, as well as the regular review and documentation of compensation decisions. It also includes decision-making processes and communication of results.
- **Criteria for job evaluation and classification.** These list all activities and jobs within the company, evaluated based on a defined job evaluation catalog. Salaries are determined based on this catalog.
- **Equality Plan.** Companies must outline their plans for implementing fair pay and equality in this Plan, to include showing how any identified pay gaps will be closed and how these gaps will be prevented from reopening.
- **Documentation system of compensation decisions.** This system summarizes compensation decisions, responsibilities in the compensation and job evaluation systems and documents decisions.
- **Analysis of compensation structures.** Companies must analyze their compensation structures and pay gaps on an annual basis. This analysis must include all activities and employees at the company.

The Compensation Policy can be viewed by employees and external parties. In general, it must be determined which groups can access and view company documents.

Companies and organizations must plan and develop the process independently. According to the standard, management is involved in the implementation and designates the people who will be responsible for implementation. Companies are free to seek assistance in this process through consultants. Companies submit their complete documents to one of the four certifying companies who audit the documents and check the implementation of the standard. When the audit is completed successfully, the assessment is sent to the Institute of Gender Equality, which issues the Equal Pay logo and places the company on the public list. The process is shown in condensed form in the following graphic:

Figure 1 Certification process for organizations with more than 50 employees



The 2020 Act introduced an **exemption for companies and organizations with 25 to 49 employees**. They can choose to go through external certification to the *Equal Pay Standard* or undertake a simplified audit by the Equal Pay Institute followed by Equal Pay Confirmation. The goal of this exemption is to reduce the administrative and cost burden on small businesses and make it easier for this group of companies to implement the law. The two procedures differ not so much in terms of documentation requirements but rather in whether an external audit is required. This newly created exception was mostly viewed positively in the interviews conducted.

Companies with between 25 and 49 employees can receive **Equal Pay Confirmation** from the Icelandic *Institute of Gender Equality*, provided they submit the following documents for audit:

- Compensation policy / equal pay strategy
- The company equal pay plan
- Job evaluation and grading criteria
- Analysis of compensation structures
- A strategy for improvement where gaps have been identified, and
- A summary of the above documents along with a statement by the management.

The statement by the management is the only difference in the document requirements for companies with 50 or more employees undergoing an external audit (and therefore the latter documents are not described in detail). After the Institute of Gender Equality has reviewed the submitted documents, successful companies receive Equal Pay Confirmation and the *Equal Pay Logo*. In total, approximately 560 companies have already achieved this (Thorgeirsdóttir, 2019)

The process for these companies is as follows:

Figure 2 Certification process for organizations with 25 to 49 employees



► ► ► ► ► **PUBLICLY ACCESSIBLE LIST OF CERTIFIED COMPANIES**

The Icelandic Gender Equality Institute maintains a list of all companies that are already certified. At the time of the report, 347 organizations were certified (Gender Equality Institute, 2021: as at December 31, 2021). In addition, the Gender Equality Institute lists all organizations that are allowed to certify according to the *Equal Pay Standard*.

The public display of certified and non-certified companies is further enhanced by the Equal Pay Logo that certified companies are allowed to display, specifying the current certification period (Government of Iceland, 2021). Many companies display the logo directly on the homepage of their company website, thus directly demonstrating their commitment to Fair Pay.

Figure 3 Equal Pay Logo



The interviewees independently state that companies and organizations not only position themselves with the logo, but they hardly receive any applications or positive reviews without certification. The Icelandic population is aware of the logo and application or purchasing decisions are made after checking the certification. “Naming and shaming” has a clear positive effect: companies today can no longer afford to ignore fair pay or avoid being certified, according to interviewees.

▶ ▶ ▶ ▶ ▶ **SANCTIONS**

Sanctions have been introduced for companies and organizations that do not comply with the external auditing obligation. A penalty of 50,000 Icelandic kroner (339.42 euros) is applied for each day that the company is not certified (conversion rate on December 1, 2021). The penalty is set by the Institute for Gender Equality and can be adjusted to the situation in the company or the number of employees (Government of Iceland, 2021).

▶ ▶ ▶ ▶ ▶ **CERTIFICATION AND COSTS**

Certification to ÍST85:2012 is overseen by an external institution. Currently, four companies are authorized to perform certification. The certifying organizations are listed with the Institute for Gender Equality and must themselves be certified to ÍST EN ISO 17021-1:2015⁵ to ensure the minimum requirements for certifying organizations in Iceland.

From their day-to-day work, certifying organizations have reported that the certification process requires a two-day audit on average if they are well-prepared. However, the cost and time required for the *Equal Pay Standard* do not increase linearly with company size: on average, certification takes about one additional day per 5,000 employees. Data verification is also not linear and depends on the size of the organization being certified. For example, for a company with around 300 employees, all submitted data sets are checked; for a company with around 3,000 employees, the check of submitted data is based on random samples. Whether the audit is conducted using random samples depends on the certifying company but for certification, companies and organizations must in any case submit their data and analyses in full.

⁵ Conformity assessment - Requirements for bodies providing audit and certification of management systems / Requirements for bodies providing audit and certification of management systems; in Germany, this ISO standard is registered under the following identifier: DIN EN ISO/IEC 17021-1:2015-11.

As far as the costs are concerned, the calculation is made in the days mentioned. According to Icelandic interviewees, certification costs each company approximately 6,000 euros. Added to this fee are the personnel costs incurred at the company to prepare for certification. Depending on the status of the company, these costs can vary greatly (Thorgeirsdóttir, 2019).

Certifying organizations emphasize that *ISO 9001* certification often takes more time and costs than *Equal Pay Standard* certification. According to the guidelines for *ISO 9001* certification, the *International Accreditation Forum* states that an auditing time of three days is estimated for a company size as small as 25 employees. Depending on the size of the company, this time can also exceed 20 days (from about 5,500 employees) (*International Accreditation Forum*, 2020). In addition, the costs for certification to the *Equal Pay Standard* would not be perceived as a burden for companies, nor had there been any cases so far in which companies could not afford the costs. The companies and organizations surveyed also confirmed that the costs of certification are reasonable. The only criticism voiced was the disproportionately high costs for small companies and organizations. However, these could be eliminated with the exemption since 2020.

In the interviews, it was consistently confirmed that companies that had already been certified to *ISO 9001* or could present a structured compensation system had come through the first round of certification very well. Since the requirements are limited primarily to job evaluation criteria and documentation and do not include any benchmarks on the gender pay gap, companies can achieve certification with relatively little effort. From practical experience, the certifying companies also recommend that organizations increase the requirements for measures from certification round to certification round to be able to adapt and improve the compensation system step by step.

► ► ► ► ► **THE ROLE OF SOCIAL PARTNERSHIP AND COLLECTIVE AGREEMENTS**

In contrast to Germany, where membership in a trade union is voluntary, there is no obligation to join a trade union in Iceland, but employees are required to pay dues to the trade unions, irrespective of membership. This results in an indirect obligation to join a trade union, which can be chosen according to the activity performed or training received (Nordic Council, 2021). Although the standard itself is not applied at the collective bargaining level but implemented from the company side, Icelandic employers are

bound by collective bargaining frameworks through this special arrangement of union memberships when implementing the Standard.

The *Equal Pay Standard* states that a compensation system for all employees should be created and certified at the company level. Thus, collective agreements and social partnership are an integral part of the discussion in the implementation of the Standard. By applying the Standard, wage decisions are decentralized at company level, while at the same time, collective agreements centralize compensation decisions. This can create friction, as some studies have already confirmed (Wagner, 2018; Gunnarsdóttir, 2019).

In practice, however, a different picture has emerged. Respondents indicate in the interviews that collective agreements and their application for each employment group set an indirect minimum standard for salaries. In Iceland - as in Germany - salaries must not fall below the minimum level of respective collective agreements; however, companies and organizations may very well pay higher salaries than those stipulated in collective agreements. There is also no comprehensive set of rules linked to the collective agreements providing regulations on working hours or additional benefits, for example, as is the case in Germany. Accordingly, companies and organizations can use the collectively agreed minimum standards as a basis for their own compensation system without violating regulations from other collective agreements.

Furthermore, it has been shown in practical application that groups of employees who have the same value in the activities they perform must also be paid the same wages. Since collectively agreed wages cannot be undercut, this means the best-paid group sets the standard for other groups with the same job value. It remains to be seen whether unions will take advantage of this development and collaborate in collective bargaining in the future to achieve uniform salary levels.

Another issue mentioned in the interviews is that collective bargaining agreements may undervalue or overvalue individual activities or contain biases. These biases could be countered at company level with a cross-company compensation system, which would also include a uniform job evaluation system. However, it should also be noted that based on this practice, the collective agreements themselves would not be changed, but only possible under- and overvaluation would be identified.

► ► ► ► ► **POLITICAL DESIGN AND CONSIDERATION OF EMPLOYERS' INTERESTS**

In the interviews, one success factor in the implementation of the *Equal Pay Standard* is repeatedly highlighted: the political will of the then Minister of Social Affairs, Þorsteinn Víglundsson. As Executive Director of the Icelandic Employers' Associations, Víglundsson was involved in the standardization process from the beginning and accompanied the drafting, registration and application process of the first companies while also exerting political influence.

After the *Equal Pay Standard* was introduced in 2012 and tested in the pilot project until 2015, Þorsteinn Víglundsson decided to exert his political influence to close the gender pay gap sustainably via a legal obligation to certify with the *Equal Pay Standard*. It is thanks to Víglundsson's political will for this sustainable change that the law on mandatory auditing was passed within just four months.

In addition to the political will for change, Víglundsson's connection to employer associations and experience in developing and implementing the Standard certainly contributed to the success. Víglundsson also expressed his conviction during his work on the employer side that companies must prove that their compensation structures are fair for all employees. He also expressed his belief that differences in salaries were often not verified and visible. With this attitude, Víglundsson approached company representatives and described fair pay as a management task for companies that already know how to apply ISO standards such as *ISO 9001* or *14001*. In addition, Víglundsson conceives of unfair pay as an economic cost to the entire state of Iceland and to individual companies that must be minimized (Sigurðardóttir, 2017).

Today, the political will for continuity is also evident in the Icelandic government: although the successor government has extended the deadlines for applying the standard, the issue remains a priority on the political agenda. In the meantime, responsibility for fair pay no longer lies with the Ministry of Social Affairs, but under the purview of the Prime Minister.

▶ ▶ ▶ ▶ ▶ **CRITICISM OF THE *EQUAL PAY STANDARD***

In general, the interviews for this study paint a positive picture of both the *Equal Pay Standard* itself and its application (see also Wagner, 2021). While critical voices were certainly raised before the legal introduction in Iceland, these now seem to have fallen silent. Even companies that criticized the standard in its form and application have, according to the interviewees, in the meantime recognized the value of the standard and its positive effects. For example, the standard is not only used for compliance with the legally prescribed regulations, but also as a management tool for structuring HR processes or for external marketing. Despite this development since the introduction of the standard, which can be considered positive overall, the interviewees name some points that have led to various challenges within the standardization and legal process:

- 1. Bureaucratic effort and costs.** A central point of criticism was the increased bureaucratic effort and the associated costs for companies and organizations. The effort required for the first round of certification in particular was rated as high, as companies first had to familiarize themselves with the process. The effort is reduced as soon as a compensation management system based on the *Plan - Do - Check - Act* principle is established in the company. Companies that already use standardized procedures in compensation can aim for certification with less effort.

As far as costs are concerned, small companies criticized the statutory regulation at the outset. However, due to the legal certification requirement, the cost framework was largely accepted by companies, as ultimately all companies with 25 or more employees are obliged to certification. In addition, the legislation responded to this criticism with the exemption for organizations with 25 to 49 employees.

- 2. Centralized decisions on salaries.** Implementation of the standard also requires centralized decisions on compensation on corporate level to be set out in a management process. Decisions that were previously made at the department or team level must now be established in standardized procedures. Here, too, companies initially incur additional expense, but this becomes less once the system is established.
- 3. Lack of review of unconscious biases.** With the application of the *Equal Pay Standard*, a management system is introduced that establishes the regular calculation of pay gaps, an annual review of the compensation process and overarching job evaluations for the entire company. These processes can also

be used to verify that a fair system is in place along the entire HR process – from hiring to leaving a company and if procedural requirements are implemented correctly. However, that is not the deciding factor in becoming certified. Also, reviewing unconscious biases in decisions within the compensation system is not an integral part of applying the *Equal Pay Standard*.

4. **Implementation guides.** ISO and German industry standards often have accompanying annexes describing the implementation of the standard and outlining implementation examples. The Icelandic *Equal Pay Standard* initially had annexes with examples for the assessment of activities but lacked guides for auditing. The certifying companies in particular note that due to the lack of guidelines, the first certifications of companies and organizations were not carried out in a uniform manner. Also, the Standard leaves room for interpretation in many places and different solutions in the application in companies. In the meantime, the Icelandic government has precisely provided these guidelines, so that there is now clarity within the certification process for certifying institutions as well as companies and organizations in the application.
5. **Lack of benchmarks.** The *Equal Pay Standard* does not set any benchmarks, target figures or other KPIs specifying that certain values must not be undercut, or certain thresholds exceeded. While companies and organizations are required to calculate pay gaps, the Standard does not provide any guidance on whether a specific value or target should be achieved.

Over the course of time and application experience with the *Equal Pay Standard*, an indirect target value has become established despite the lack of benchmarks. While an adjusted gender pay gap of around five percent was still considered acceptable in a company at the beginning of the certification phase, this value has now fallen to two percent, according to interview partners in Iceland. A positive downward spiral has now developed between companies and organizations.

6. **Alignment with ISO 9001.** Aligning the *Equal Pay Standard* with the *ISO 9001* management standard was seen as a key to success when it was first developed. *ISO 9001* is well-established, certification is tried and tested and companies have shown there is a great need for this worldwide. The current version of the *Equal Pay Standard* was registered in 2012 so is also based on the version of *ISO 9001* at that time. *ISO 9001* was transferred with other management standards in 2015 into a uniform system – the *High-Level Structure*. Even though the *Equal Pay Standard* is based on *ISO 9001*, the versions no longer correspond and are accordingly no longer transferable.

In 2018, a committee was convened to revise the *Equal Pay Standard*. A version based on the *High-Level Structure* of the ISO management standards was discussed in the process. The previously raised criticism of a lack of benchmarks was also addressed. However, an updated version of the *Equal Pay Standard* could not be implemented because no agreement could be reached within the committee. It was precisely the resistance of employer representatives and, in part, also of trade unions that prevented a new version from being adopted. The resistance is based on the one hand, on the assumption that the existing guidelines are sufficient to implement fair pay, that new challenges in implementation can quickly arise in the course of a new version after the legal introduction in the companies and also that the standard would have to be changed via the Icelandic Standards Institute and, in the course of this, the legal regulations would also have to be adapted. As a result, it has not yet been possible to adapt the standard in line with current developments in *ISO 9001*.

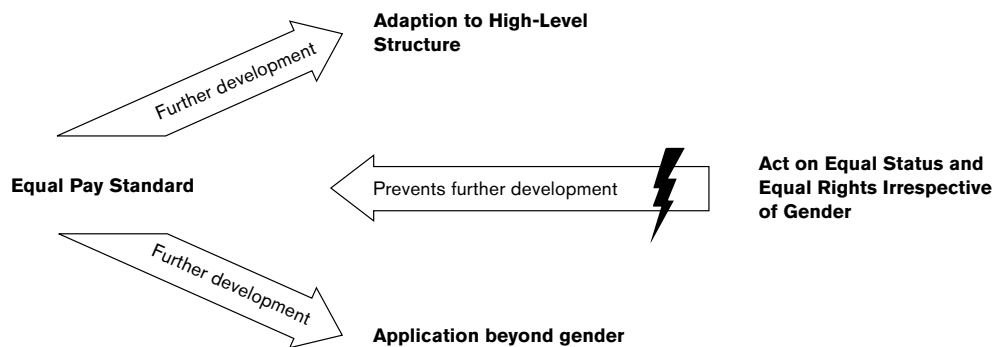
- 7. Legal establishment.** The legal establishment of the application of a specific standard was seen internationally as a revolution in the field of equality and was widely celebrated. However, in practical application, legal establishment turns out to be both a curse and a blessing: the law of 2017 as well as the law of 2020 concretize the application of the *Equal Pay Standard* in the version from 2012. According to the law, only this version is in conformity with the law. If the standard were to be changed, the legal basis would have to be adjusted - in the regular legislative process. In practical terms, this rules out any change to the *Equal Pay Standard*. Although the introduction of the law to apply the standard was quickly passed, political majorities have changed since then and such rapid implementation is no longer possible.

In addition, the *Equal Pay Standard* itself refers to statutory regulations that have since been revised, making the standard in its current form obsolete. This has created a cycle of stagnation: By legally establishing the *Equal Pay Standard*, an innovative process was established. But an adaptation of both the auditing requirement and the medium are prevented by this very procedure.

This point becomes particularly relevant as the 2020 reauthorization of the law explicitly establishes pay equity for women, men and neutrally registered individuals. However, the *Equal Pay Standard* in its current form is designed to address pay equity between women and men. Many of the interviewees confirm that the *Equal Pay Standard* can be used as an intersectional guide to fair pay systems beyond the binary category of gender and can

consider other demographic factors such as age, race, or disability. However, the standard is tailored to the demographic binary gender variable. For this reason, the certification only tests for the male-female gender variable. One way out of this cycle would be to introduce a statutory minimum standard that companies and organizations must meet, with certification to the *Equal Pay Standard* offering a way to become compliant. A similar procedure is already used in technical or environmental management certification.

Figure 4 Summary of the challenges of *IST85:2012*



► ► ► ► ► **CHALLENGES FOR THE COMING YEARS**

In addition to the critical voices heard above, many of the interviewees mentioned two aspects likely to influence future discussions about the *Equal Pay Standard*. Firstly and as acknowledged above, the feasibility of introducing change. Due to the described blockade within the committee on the *Equal Pay Standard* and the special situation of the legal fixation of the current version of the standard, the current situation is virtually unchangeable for the next few years. Even if changes were desirable or sought by various actors, they would be difficult to implement. The standard and all those involved in the process represent political positions and the topic of fair pay is in the public eye. This, too, is likely to make it difficult to update or change the standard.

Secondly, the value of work and the social significance of work, especially in female-dominated and undervalued occupations, are also increasingly under discussion in both Iceland and Germany. The *Equal Pay Standard* certainly creates fair compensation systems, but only at the organizational level. At the societal level, the application of the standard can drive the



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discussion around undervaluation, but societally, the standard does not provide sufficient leverage to address the undervaluation of jobs at the macro level (Olafsdóttir, 2018). The debate in Iceland shows parallels with the public discussion on upgrading undervalued activities in Germany and with the results of the Comparable Worth Index (Lillemeier, 2017; Klammer et.al., 2018). According to the interviewees' assessment, the discussion on upgrading individual occupations should be conducted more publicly now that the *Equal Pay Standard* has been established as an HR instrument for fair pay.

The situation in Germany: transposing the Icelandic *Equal Pay Standard ÍST85:2012*

The situation in Germany and Europe

Fair pay is not only a legal requirement in Iceland, but also in Germany – even if the political instruments used to enforce it differ greatly. The principle of gender equality is enshrined in the German constitution (Art. 3(2)), as is the active role of the state in working towards equality. Germany ratified as early as 1956 (ILO, 2021). In addition, there are European requirements for the implementation of fair pay as per Art. 157 in the Treaty on the Functioning of the European Union or Directive 2006/54/EC on the implementation of the principle of equal opportunities and equal treatment of men and women in matters of employment and occupation (recast). According to Art. 157 of the Treaty on the Functioning of the European Union, the equal pay principle is mandatory and directly applicable. In addition, parties to collective agreements are obliged to pay women and men the same for equal work of equal value. Ever since the introduction of the Act to Promote the Transparency of Pay Structures (Pay Transparency Act) in 2017, the prohibition of direct and indirect discrimination on the grounds of gender in pay has been clearly formulated. In addition, the *General Equal Treatment Act (AGG)* established the prohibition of discrimination based on gender, inter alia, in 2006. Despite the clear legal situation at international, European and national levels, the wage gap in Germany was still 18 percent in 2020 (Federal Statistical Office, 2021).

The first evaluation report on the Pay Transparency Act was published in 2019. The key findings on the application of the Act show that its instruments have not been fully utilized to date and that there is still room for maneuver on several levels:

- ▶ The topic of equal pay played a subordinate role in companies with more than 200 employees at the time of the evaluation
- ▶ Companies stated that no pay inequality is to be found in the organization itself and that the relevance of the topic is therefore low overall
- ▶ Around four percent of employees claimed the right to information after it came into force
- ▶ Around 40 percent of companies and organizations covered by the law reviewed their compensation structures after it came into force
- ▶ Most companies and organizations complied with the reporting requirements
- ▶ Overall, all groups surveyed, from employees to company representatives, said there was insufficient awareness of the law and its tools to implement fair pay. (Dermanowski et.al., 2019)

In March 2021, the European Commission presented a draft directive on pay transparency to establish a uniform framework for closing the pay gap. The proposed measures included:

- Disclosure of the salary range in job advertisements and prohibition of the query of previous salaries
- An annual right to information for employees on comparative salaries and salary components
- Reporting obligations for companies with more than 250 employees: gender pay gap by average and median, for basic salary and other salary components and a breakdown of women's and men's shares by salary quartiles in the company
- An auditing requirement for companies with 250 or more employees
- The introduction of penalties and compensation for non-compliance, and
- The reversal of the burden of proof in the event of legal proceedings.

With its proposed directive, the European Commission seeks to combine gap-closing measures from several countries: the reporting requirements from the United Kingdom, the German right to information and the Swiss auditing requirement. Most importantly, the European Commission places

the burden of proof for fair compensation systems on companies if employees present indications of discrimination (European Commission, 2021b). However, the European Commission decided against a standardization procedure like the one in Iceland due to fears of excessive costs, although the policy instrument is judged to be effective and its leverage effect is recognized (European Commission, 2021a)

In the run-up to the publication of the draft directive, *Eurofound* highlights the importance of testing procedures, audits and reporting requirements in two studies. Firstly, it was shown that reports or audits are more meaningful and effective if they are prepared with a certain level of detail, both in terms of which parts of the content were analyzed and which types of analysis were provided, (*Eurofound*, 2018). Secondly, it looked at the cost side of auditing and review processes. *Eurofound* concludes that the costs of external audit procedures are surprisingly low. Costs on the internal side arise primarily in the process of transferring the legal requirements to the respective companies, in the preparation of the data sets and in the decision-making process as to which procedure should be used. The better the data are available and prepared, the easier and cheaper the analysis is for the companies. In addition, digital data collection and analysis facilitate the process (*Eurofound*, 2020).

Thus, *Eurofound* debunks two of the most dominant arguments against compensation analyses in the run-up to the discussion on the European initiative, because they are neither expensive nor burdensome. If the analyses are expensive and burdensome, it is because of a lack of data management systems, job evaluation procedures or job descriptions.

The Icelandic *Equal Pay Standard ÍST85:2012* as a guiding tool for reviewing pay structures and job evaluations

The Icelandic *Equal Pay Standard* has proven to be an effective lever for ensuring fair pay in companies and establishing neutral job evaluation systems. Unlike existing job evaluation systems, the Icelandic *Equal Pay Standard* not only provides a job evaluation system, but also requires a documentation system and the integration of the compensation system into management structures with regular reviews. Thus, the Icelandic standard goes beyond the job evaluation tools available in Germany in its requirements. Tools already available can also be integrated into management systems or applied on a regular basis.

Given the advantages of the *Equal Pay Standard*, the question of transferability and applicability in Germany should be considered. It is true that the standard is now also available in a German translation. However, three major challenges arise regarding transferability:

1. The current version of the standard contains numerous references to Icelandic legislation, which justify the content of the standard. Since these laws do not apply in Germany, the existing text would therefore have to be neutralized and the references to Icelandic laws removed.
2. The *Equal Pay Standard* is based on the *ISO 9001* and *14001* standards – but as they were in 2012. These management standards were unified in 2015 and transferred to a common structure to facilitate implementation in organizations. If the aim is to transfer the standard to Germany, the *Fair Pay Standard* should also be published in the current form of the ISO management standards to facilitate implementation in organizations. In addition, it would be possible to implement the intersectional claim and thus create a general standard for fair pay. Further scope for development of the text could include linking the compensation system to organizational values while addressing the issue of the value of work to the organization in an overarching way.
3. A standard can only be fully effective if it is registered with the relevant institutions, such as the *German Institute for Standardization* or the *International Organization for Standardization*. Otherwise, it is not possible to certify based on the standard. Companies and organizations can use the text of the standard as a guide for compensation structures without registration or certification, but it is questionable whether this option will be taken up without registration, the incentive of certification or regular review obligations.

Two other aspects are important in considering transferability:

▶ ▶ ▶ ▶ ▶ **LAWS, RIGHTS AND STANDARDS**

DIN or *ISO* standards are generally voluntary in their implementation. Only when norms and standards are explicitly named in contracts or laws do they become legally binding (DIN, 2021b). Since technical standards reflect the current state of the art that is often required by contract, DIN-type standards can also be indirectly binding (according to DIN EN 45020). Iceland is taking a special path in the legal implementation of the *Equal Pay Standard*. Thus, the application of the ÍST85:2012 standard has been legally

established. Only the 2012 version of this standard may be used to review compensation systems. Iceland is creating clarity and legal certainty. However, this also means that Iceland does not permit any further developments, as not only the application of a standard but also the version that is now almost a decade old are legally binding.

A step like that in Iceland would not be expedient in Germany or other European countries. For one thing, before a standard becomes legally binding, it would have to be registered, recognized and established. For another, the challenges posed by statutory establishment, such as a lack of flexibility in revising the respective standard, should not be transferred.

The Icelandic application also shows that the political debate in the country has a significant effect on the *Equal Pay Standard* and its application. It is true that the standard is intended to establish an independent system for reviewing pay structures. However, the application within organizations, the scope of application or deadlines, is part of the political discussion and is changed depending on the government formation.

► ► ► ► ► **LEGAL REQUIREMENTS AND COLLECTIVE AGREEMENTS**

Art. 9(3) of the *German Basic Law* stipulates “the right to form associations [...] for the purpose of safeguarding and promoting working and economic conditions”. Collective agreements and their negotiation between the collective bargaining parties thus underpin the labor market, labor relations and wage determination. Regulations or standards that influence the wage-setting process must therefore also withstand the current regulations on collective agreements. Art. 9 (3) of the *German Basic Law* also forms the basis for collective bargaining autonomy in Germany, which states that collective bargaining parties may independently regulate employment relations for their members without intervention by the state. The Pay Transparency Act assigns a privileged role to collective agreements. Where collective agreements apply or are applied, reference can be made to the applicable collective agreement regulations and the classification of the person asking the question in information procedures (see Pay Transparency Act Art. 11(3)).

In Germany, collective agreements specify not only salary, but also job descriptions and classification criteria, as well as weekly working hours for full-time employees, vacation entitlements, vacation pay, special bonuses, allowances, or other benefits. On closer examination, the differences compared with the Icelandic system become apparent. While the number of companies bound by collective agreements and the number of employ-

ees paid accordingly is falling in Germany, almost all employees in Iceland are paid according to collective agreements. Many trade unions operate in Iceland and employees can choose to belong to a union depending on their professional training or occupation. In addition, unions in Iceland negotiate a minimum standard for their members rather than a comprehensive package of salary, benefits and working hours. Organizations and companies in Iceland are required by the *Equal Pay Standard* to implement and have certified a salary system for the entire structure. If employees work in the same or equivalent positions, they must also be paid the same. Thus, the collective agreement with the highest salary sets an indirect standard for all employees in that job group. Companies in Iceland are bound by the minimum standards of the collective agreements but can exceed these requirements. In Germany, too, companies that are bound by collective agreements and related regulations on salary, working hours, groupings or allowances can exceed the guidelines set out in the collective agreement. This means that a *Fair Pay Standard* based on the Icelandic *Equal Pay Standard* can also be introduced in Germany without interfering with collective bargaining autonomy.

As part of this report, interviews were conducted with representatives of trade unions, works councils and employer representatives in Germany. From these, a very patchy picture emerged. While the union representatives and works councils interviewed were in favor of a *Fair Pay Standard*, the representatives of employers strictly rejected any form of management standard as an encroachment on corporate governance and collective bargaining autonomy.⁶ At the union and works council level, a standard is generally favored because it allows activities to be re-evaluated. Various challenges can be addressed here. On the one hand, the implementation of pay equity between women and men and the undervaluation of frequently female-dominated activities and on the other hand, a standard can act as a lever for revaluations in the course of digitalized work. On the part of employer associations, the implementation and introduction of new standards in HR are generally rejected. Both in the interviews conducted and in position papers, it is stated that voluntary standards on quality management such as *ISO 9001*, CSR or HR management are also fundamentally rejected. The challenge cited here is that despite the voluntary application of standards, the scope for action within companies would be restricted, thus possibly interfering with the autonomy of collective bargaining (BDA, 2021).

⁶ See also the BDA position paper "Tarifautonomie und Sozialpartnerschaft nicht durch bürokratische Normungsvorhaben unterlaufen und aushöhlen".

Three aspects of the interviews conducted are of particular interest for the further discussion on making the standard usable in Germany:

1. The changeover of the industrial metal union IG Metall's framework compensation agreement (*Entgeltrahmenabkommen - ERA*) has shown how important a uniform and neutral evaluation framework is in any discussion about equal and equivalent jobs and their pay. During the implementation of ERA, job requirements were measured in the areas of qualification, leadership, cooperation and scope for action and on this basis a neutral framework was created for all employees. Especially the often historical undervaluation of psycho-social skills and competencies, often considered as typically female activities, can be minimized and overcome with the help of a neutral activity evaluation system.

In the past 15 years of ERA, there has been a fundamental change in activities due to the digitalization and flexibilization of work. Although ERA allows for neutral job evaluation, the system repeatedly and increasingly often reaches its own limits as previous levels shift due to the use of new equipment and machinery, new software and new training and development needs. The introduction of a *Fair Pay Standard* is expressly welcomed here as a means of systematically addressing these new challenges and creating a system flexible enough to address the further changes that will occur in the coming years. In this way, a *Fair Pay Standard* can build on the current knowledge of ERA and thus serve as a blueprint for other sectors and sectoral collective agreements.

2. Secondly, the discussion about changes in job profiles has also sparked a debate about how to deal with regroupings or changes in groupings. Where new machines and methods have been introduced into production over long periods of time, the job profile of many employees has changed rapidly and the need for training and leadership has changed fundamentally. Neither collective agreements nor groupings have been adjusted. One works council interviewee observed that, based on the documentation of activities performed by individual employees - from predominantly female-dominated groups - every classification affected by massive changes in the job profile was reviewed and adjusted. This was successful, but these regroupings were carried out on the initiative of the works council, they involved a great deal of documentation and took years to implement. In addition, decisions were made for each person in a separate process.

It was repeatedly mentioned in the interviews that a systematic process based on a *Fair Pay Standard* would have accelerated and standardized this process. This also demonstrates that a *Fair Pay Standard* can be used not only retrospectively as an analysis procedure, but also for the systematic planning of compensation and evaluation structures.

3. The Icelandic *Equal Pay Standard* requires the implementation of a compensation system for the entire company. The introduction of a *Fair Pay Standard* would make it possible to merge the collectively agreed and non-collectively agreed areas within companies. The same applies to regulations according to individual plants or in relation to locations. In applying a standard for compensation systems, transitions between systems could therefore be implemented more easily. Frequently occurring wage gaps in the non-tariff area could also be closed. The focus on individual companies or areas covered by collective agreements is thus supplemented by an overarching framework that creates uniform benchmarks for wage determination for all employees in the company without interfering with collective bargaining autonomy.

A *Fair Pay Standard* could be implemented at the organizational level and applied voluntarily by companies. This would not interfere with the work of the collective bargaining parties and collective agreements would remain in their current form. Companies and organizations would create a compensation and job evaluation system valid and certified for the entire company. Companies could go beyond the requirements of the collective agreements to create an adapted system that could be applied universally to companies.

Demand in companies and organizations for a standard as a guiding instrument for reviewing pay structures and job evaluations

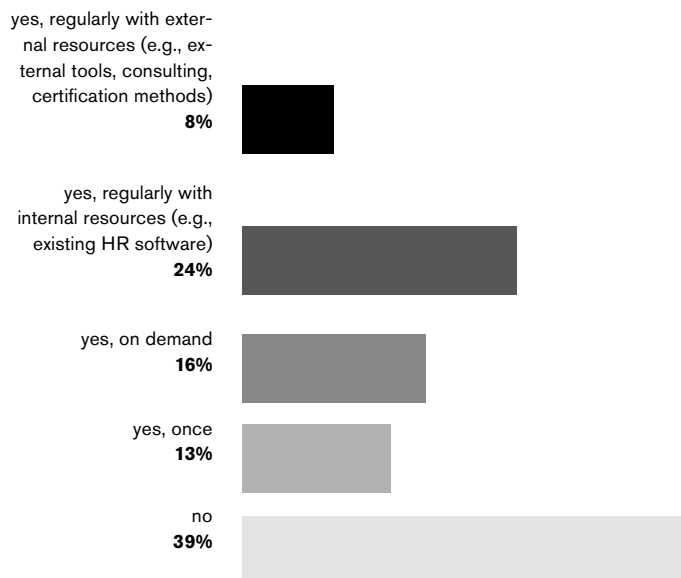
In addition to the feasibility of implementing a *Fair Pay Standard* in Germany, another key question is the demand from companies for a standardized procedure for reviewing pay. For this purpose, in addition to the interviews, a non-representative quantitative company survey was conducted for the report. The results of the survey may reflect a distorted picture of attitudes to fair pay within German companies, as the companies surveyed are already more interested in the issue and attach greater importance to it.

A total of 69 company representatives took part in the quantitative company survey. The respondents were predominantly female (72%), representing a wide variety of age groups and 72 percent worked in the private sector, primarily in management positions (28%) or in HR departments (18%). Overall, the survey was able to cover a wide range of company sizes – from the smallest companies with fewer than 10 employees to companies with over 25,000 employees. However, the overall number of responses was low – 1,220 company representatives in Germany were contacted several times to take part in the survey. The questionnaire was also distributed via cooperation partners.

► ► ► ► ► **OPINION ON FAIR PAY IN GERMAN COMPANIES**

The overall mood shows a positive attitude toward the review of pay structures in the companies surveyed: 60 percent of the companies review their pay structures regularly or have reviewed them once or on request. Regularly, 31 percent of the companies surveyed review their pay structures for fair pay.

Figure 5 **Do you review your pay structures in your company or organization? N=51**



However, 63 percent of the companies surveyed state that they do not collect the gender pay gap as part of these analyses. Only around 20 percent of companies calculate their gender pay gap on a regular basis.

Figure 6 In your company or organization, do you calculate the gender pay gap – the percentage difference in salary between women and men? N=51



To close pay gaps once identified, companies and organizations implement a variety of different measures, e.g., salary adjustments (31%), the use of performance-based appraisals (33%), diversity management (35%) or structured interviews in recruitment and assessment processes (29%).⁷

While the analysis of compensation structures and calculation of the gender pay gap cannot be clearly assigned to a majority of organizations by size, the implementation of measures is clearly linked to organizational size. In particular, companies with more than 1,000 employees implement a mix of different HR measures to promote equality and fair pay. In smaller and medium-sized companies with up to 250 employees, the measures mentioned are rarely implemented.

In 2019, around 40 percent of the organizations surveyed for evaluating the German Pay Transparency Act reviewed their compensation structures (Dermanowski et.al., 2019). In the survey for this report, 61 percent of the companies surveyed said they reviewed their structures and as many as 32 percent said they conducted regular reviews. The two surveys are not directly comparable, as the current survey is not representative.

⁷ For further response options, see the question: What measures have you implemented in your company or organization to reduce any existing differences in pay between men and women? N=51, multiple answers possible. The choices used here are based on the evaluation on effective measures to close the pay gap by the Government Equalities Office in the UK (see Government Equalities Office, 2017)

▶ ▶ ▶ ▶ ▶ **APPLICATION OF DIN AND ISO STANDARDS IN GERMAN COMPANIES**

The picture is different when it comes to the application of *DIN* or *ISO* standards. Only 33 percent of the companies in our FPI survey stated that they were certified to an ISO standard (N=49). Only 23 percent of the companies surveyed said they were certified to DIN (N=47). The standards mentioned related primarily to quality management (*ISO (EN DIN) 9001*), environmental management (*ISO (EN DIN) 14001*) or IT security (*ISO (EN DIN) 27001*). In general, there is a large overlap in the companies and organizations that are certified according to ISO and DIN standards.

The results of ISO certification are rated as positive overall (N=14, responses good and very good at 78.5%). The process of certification, on the other hand, is often perceived as merely sufficient (N=14, answer sufficient at 35.7%). More than half of the companies that already have or are planning *ISO* certification rely on external support in the certification process. The picture of *DIN* certification is similar, but more positive overall. Certified companies and organization are satisfied with both the process and the outcome of certification. In addition, most companies and organizations surveyed have achieved certification to *ISO* or *DIN standards* with external support.

▶ ▶ ▶ ▶ ▶ **OPPORTUNITIES AND CHALLENGES OF CERTIFICATION PROCESSES**

On the side of the opportunities of certifications, the respondents did not see any connection to fairness or good management principles (especially regarding certification to *ISO 9001*), but instead to aspects of compliance with guidelines, the detection of internal weaknesses or the achievement of quality standards. These statements are surprising, since certification to *ISO 9001* facilitates these aspects and does not prioritize them in terms of content.

When asked about challenges, companies mainly complained about a lack of capacity or support at management level. So the effort involved is criticized above all in certifications. This feedback corresponds to the arguments frequently put forward against dealing with fair pay or the application of the German Pay Transparency Act. The effort involved is also frequently mentioned as a point of criticism in the interviews with certifying companies. In this respect, they see a difference above all in the size of the company:

large companies often already have existing infrastructures to deal with process and quality management or the measurement of KPIs. SMEs, on the other hand, would often not have this infrastructure to fall back on.

In terms of feedback, the attitude of respondents to a *Fair Pay Standard* overall is surprising: 37.7 percent stated that they considered the need for a *Fair Pay Standard* for their company to be high. The positive attitude is surprising, as the possibility of standardizing compensation systems has hardly found its way into the public discussion so far. On the one hand, the responses reflect the internal mood and show that a standard for internal company processes and implementation of fairness is viewed positively. On the other hand, the respondents named the external level of standards and certifications, by means of which the commitment to fair pay could also be used in external presentations. Around one third of the respondents stated that they would want to use a *Fair Pay Standard*. The proportion rose to 36 percent when external support was considered, for example through a federally-funded project.

“We have published our compensation structures on our website. Our company prepares a public welfare balance sheet in which all salaries are available for everyone to see. On this basis, we have internal transparency, in terms of salary structure and external signaling, in terms of setting an example for other organizations. There are only opportunities from our point of view.”

Comment in company survey (Management, male, small company)

▶ ▶ ▶ ▶ ▶ **THE LEVEL OF AWARENESS OF THE ICELANDIC EQUAL PAY STANDARD**

A quarter of the respondents were already aware of the Icelandic *Equal Pay Standard*. The reporting around the introduction of the legal obligation to check pay gaps has largely contributed to the fact that the Icelandic *Equal Pay Standard* has also become known in Germany.

Even higher, at 30.4 percent, is the willingness to be certified with a *Fair Pay Standard*. This question confirms the trend that fair pay is becoming an increasingly important issue for companies and organizations. Organizations perceive that laws are changing and that a review of pay gaps – from job applicants to female investors – is being demanded more frequently (World Economic Forum, 2020).

Figure 7 **Have you heard of the Icelandic *Equal Pay Standard* (ÍST85:2012)?** N = 69



Figure 8 **What if there were a standard for fair compensation structures in the form of an ISO standard or DIN standard, would you be interested in certification for your company?** N = 69



A further increase in interest in the implementation of a *Fair Pay Standard* in companies can be seen when external support is included. It is interesting to note that the proportion of respondents who reject the introduction of a *Fair Pay Standard* in companies remains the same. Legal support thus convinces mainly undecided individuals.

Once the standard has been registered, support for companies can consist, for example, of a publicly-funded pilot project, whereby advice and implementation of the standard's requirements is supported. Companies receive assistance in the application of a new standard and thus provide knowledge for other organizations seeking to implement the standard following completion of a pilot project. Experience from the pilot project following the introduction of the *Equal Pay Standard* in Iceland shows that companies need incentives not only to participate in such projects, but above all to see them through to completion.

Figure 9 **What if certification were supported with a standard for fair compensation structures, would your interest in certification increase? N = 69**



Even though the survey merely reflects the mood, fair pay is a topic that is being noticed - both in the national and the international discussion. In addition, there is a clear willingness on the part of those surveyed to move towards fair compensation systems that has not yet found its way into the public discussion.

► ► ► ► ► **QUALITATIVE ASSESSMENT OF THE DEBATE ON FAIR PAY**

Overarching themes emerge from the company survey, which are highlighted below: Company size, management willingness, tools and policies available and adaptability to company circumstances.

As in the company survey, **company size** is a determining factor when dealing with fair pay and standardization procedures. In general, qualitative interviews also showed that corporate groups and large companies have very different structures to fall back on than medium-sized companies. Where corporate groups set up specialized HR departments, (e.g., also for statistics), small and medium-sized companies tend to have small departments responsible for overarching HR issues. There are also major differences in terms of documenting the salary system. Where corporate groups and large companies have developed fixed sets of rules and regularly review them, SMEs tend to have informal systems that are not documented or not fully documented. This leaves room for free decision-making or negotiation on compensation issues.

In terms of the possible implementation of a German or international *Fair Pay Standard*, this produces an interesting picture. On the part of smaller companies, there was greater willingness to undergo standardization to establish a regulated compensation system and to regularly review whether the system meets the requirements. Large companies signaled in their feed-

back that certification to a *Fair Pay Standard* would not make a significant contribution due to the constant scrutiny of existing fixed compensation systems. The systematic establishment and regular review of fair pay within the company would mean that there would be less need for validation of the system by an external body.

Another important aspect – irrespective of the size of the company – is the **willingness by C-level management** to stand up for the issue of fair pay and to actively participate in the implementation process. Without their active approval, it is difficult to implement fair and transparent compensation systems. There needs to be a clear commitment to an analysis of compensation structures and the will to close income gaps once they have been identified. In addition, active engagement is needed throughout the entire HR process to identify the causes of pay gaps and close them in the long term.

Another key issue for the companies surveyed is the **availability of tools for reviewing pay structures**. In the meantime, a variety of different tools and review processes are available for reviewing compensation structures - from free and publicly-funded tools to long-term and integrated consulting services. Organizations can choose the appropriate tool and review process to suit the level of fair pay engagement within their organization. Despite the wide range of testing methods and analysis options, companies are often left with the question of what to do directly following a statistical analysis of their internal gender pay gaps. This is exactly where a *Fair Pay Standard* can help. By auditing compensation structures and introducing the *Plan - Do - Check - Act* principle, compensation systems are continuously reviewed and tailored measures implemented to close pay gaps.

Another advantage of a *Fair Pay Standard* is its adaptability to company circumstances. In Iceland, companies with 25 or more employees are already required to implement the *Equal Pay Standard*. The *ISO 9001* standard can also be implemented by micro-enterprises with just four employees as well as by international corporations. The application of the *Equal Pay Standard* in Iceland has shown that the standard can be adapted to the individual circumstances in organizations. This flexibility is a key aspect highlighted as a requirement in the interviews.

The possibility to include the standard *IST85:2012* as a registered standard

A total of around 24,000 standards are currently registered with the *International Organization for Standardization*. In fact, there are 311 standards covering HR management, quality management or CSR alone. The *German Institute for Standardization* has over 34,000 registered standards. However, the most successfully applied standards are not from the technical spectrum, but from the area of management and occupational safety, such as *ISO 9001* (quality management), *ISO 14001* (environmental management), *ISO 27001* (information security) and *ISO 45000* (occupational health and safety), which are based on the *Plan - Do - Check - Act* principle (ISO, 2021c; ISO, 2021d).

The motivations for applying management standards are diverse and range from the intrinsic need for coherent management framework to extrinsic motivation through specifications within supply chains. Customers and cooperation partners actively ask companies and organizations for certifications. These have very different functions: They set minimum standards for organizations and products that give certified companies a competitive advantage or open access to new markets or sales opportunities.

The implementation of standards such as *ISO 9001* can take very different forms. Standards that are so frequently applied are described in numerous manuals and guidebooks, so that companies often first deal with the specifications on their own before turning to consultancies or certifiers, with the latter who frequently offer auditing consulting, the actual auditing itself, recertification and training.

Companies now have access to an extremely broad spectrum of certifiers, from specialized organizations that focus on one or two standards to large international organizations, such as TÜV, that provide guidance across diverse certification areas. There are also various guides available, especially regarding the *ISO 9001* standard for companies of different sizes or offering industry-specific approaches, such as TÜV SÜD's guide to *ISO 9001:2015* (2021). This means that companies are always better prepared for the respective certification and auditing process. In addition, companies undergoing this process can refer to uniform specifications by the *International Accreditation Forum* (2019). Certifiers can also be certified themselves to *ISO 17021* (requirement for certification bodies), *ISO 9001* or *ISO 14001*.

Use of existing standards to implement fair pay systems

Various ISO standards are already applicable regarding fair pay and compensation systems.

► ► ► ► ► CONNECTION TO THE CSR GUIDELINE ISO 26000

In 2010, the *International Organization for Standardization* published the *ISO 26000* guideline. This guideline for companies and organizations takes a comprehensive look at social responsibility. The guiding principle is the reference to the ILO core labor standards, the United Nations Sustainable Development Goals and other established management standards. Links can be drawn to the indicator system of the Global Reporting Initiative or the United Nations Global Compact. The *ISO 26000* guideline is a cross-thematic and cross-sectoral guiding principle that promotes fair business practices – both within the company’s own organization and along its supply chains – and has become increasingly important in the past three to five years.

The ISO’s implementation guide places a high priority on equality. According to this guide, organizations should, among other things, implement equal treatment for women and men in recruitment, job assignment, training, promotion, remuneration and termination of employment and pay equal remuneration for work of equal value for women and men, (ISO, 2010).

The *ISO 26000* standard serves as a guide for orientation and is not certifiable in this form. “An organization’s individual examination of its social responsibility is at the heart of the approach of DIN ISO 26000. Ultimately, the particular characteristics of an organization determine which practical When applying ISO, companies are required to independently review and continuously improve their social responsibility and the guideline provides a comprehensive overview of key topics and international agreements relevant to an organization’s social responsibility.

Regarding integration of the ILO core labor standards, which also include C100 - Equal Remuneration Convention, 1951 on Equal Remuneration for Male and Female Workers for Work of Equal Value these form a central component of the *ISO 26000* guideline. However, in its own guidance, the German Federal Ministry for the Environment points out that “Germany has ratified the ILO core labor standards and it can be assumed that the *ISO 26000* recommendations for ensuring responsible labor practices in Germany are largely regulated by legal requirements”, (BMU, 2014).

However, this is exactly where we run into two application problems of the *ISO 26000* guideline. There is a lack of verifiability for companies and organizations to have a clear compass on social responsibility and good working conditions. However, the degree of implementation can neither be measured nor regularly reviewed. Additionally, the ratification of Core Labor Standard No. 100 in Germany means it is assumed that companies and organizations also comply with that standard. Despite its ratification and the legal establishment of fair pay in the German and European legal systems, there is still an 18 percent gender pay gap (data for 2020; Statistisches Bundesamt, 2021). Reference to the standards and the legal situation alone is not enough to put fair pay systems into practice; organizations need to take a determined look at their own structures to eradicate all unequal treatment.

▶ ▶ ▶ ▶ ▶ **CERTIFICATION TO ISO 30414 IN THE FIELD OF HUMAN RESOURCE MANAGEMENT.**

The standard *ISO 30414* (DIN ISO 30414:2019) Human resource management – Guidelines for internal and external human capital reporting was published by ISO in 2018 and available in Germany since 2019. It offers companies and organizations of all sizes and industries a comprehensive set of rules to structure their human resource management and standardize reporting. The areas covered range from diversity management and the monitoring of people in leadership positions to structured application processes and organizational well-being. The World Economic Forum deemed that *ISO 30414* would fundamentally change the way HR is viewed and reported (World Economic Forum, 2021b).

The implementation of the standard requires a data-driven approach throughout the entire HR process. Of the some 60 metrics listed in the standard, around one-third contain references to compensation. In addition, companies must implement all aspects of the standard to achieve certification. Failure to obtain the required results in one area represents failure. The required metrics are divided into 11 core areas:

- ◆ Compliance and ethics
- ◆ Costs
- ◆ Diversity
- ◆ Leadership
- ◆ Well-being, health and safety
- ◆ Organizational culture
- ◆ Productivity
- ◆ Recruitment, mobility and turnover
- ◆ Skills and capability
- ◆ Succession planning
- ◆ Workforce availability

Even though the required metrics do not explicitly mention the gender pay gap, a number of data on salary or gender are required. The hurdle for calculating the gender pay gap is therefore very small. In addition, a basic prerequisite for implementing ISO 30414 is that remuneration concepts are designed and implemented fairly for all groups of people in the organization.

In addition, there is currently strong demand among organizations for certification to ISO 30414. As far as the implementation of the standard in companies is concerned, larger companies who are arguably more familiar with reporting or measuring variables in human resources have an advantage in implementation. SMEs often achieve the minimum standards, while larger companies have more capacity within the process to establish overarching reporting across the organization.

Overall, ISO 30414 provides a very good connecting point. Even though the gender pay gap is not explicitly required as an indicator, certification builds on an integrated and structured HR system and a variety of data that can also be reported on a gender-disaggregated basis. In contrast to the ISO 26000 guideline, the ISO 30414 standard offers a concrete and certifiable set of rules for companies and contains clear specifications and goals for companies and organizations. In this respect, the ISO 30414 standard also differs markedly from the requirements of the Icelandic *Equal Pay Standard*, which does not specify fixed benchmarks.

► ► ► ► ► **USING *ISO 9001* FOR FAIR COMPENSATION SYSTEMS**

With around 1.2 million companies certified worldwide and around 82,000 in Germany, *ISO 9001* is a recognized and extremely well-established system for quality assurance in management systems. In the interviews conducted for this study, one idea came up again and again on both the company side and from certifying organizations: the possibilities of using *ISO 9001* for existing compensation systems. Due to the general formulations in the standard text itself, as well as the intended applicability of a wide variety of processes within the company, *ISO 9001* can be used to review not only quality management, but the compensation system as well.

ISO 9001 is already one of the most widely implemented ISO standards and the pressure for further certification is growing steadily, especially from external players in the market. Implementing the standard is also becoming increasingly easy with a wide range of information materials, consulting services and support in certification or auditing. Many companies and organizations have learned to integrate management standards into their daily organizational routine.

Assessing risks for non-compliance and non-certification is also part of the analysis in the application of *ISO 9001* (see *ISO 9001* Art. 4.4.1 (f)). The risks also include the application of legal regulations. Non-compliance with or consideration of legislation such as the German Pay Transparency Act can already be included in the implementation of *ISO 9001*. Risk assessment covers not only whether organizations implement the legal regulations, but also whether organizations may be exposed to legal consequences. However, this rarely takes place in practice in the current certification and auditing process.

There are two key prerequisites are needed to initiate knowledge transfer. For companies already certified to *ISO 9001* or another management standard, there needs to be the will to deal with the topic of compensation beyond the regular certification process. This requires additional resources – both human and monetary – which must be made available within an organization.

On the other hand, certifying organizations need to know that the compensation system can also be included in certification – both in terms of risk analysis and auditing of the compensation system itself. So far, this knowledge is not yet available among certifiers and would first have to be built up, as was confirmed in the interviews conducted by the certifying orga-

nizations themselves, which are very interested in this aspect. To build up this knowledge, including the benefits, a large-scale information campaign would be needed to explain the many possible applications of *ISO 9001*.

When organizations seek *ISO 9001* certification, they only certify the area as listed in the standard. Even though the *ISO 9001* standard is applicable to compensation systems, they cannot be certified. Certifying organizations can point out this possibility or assist in the revision process, but Icelandic-style certification is not possible as things stand.

Although the current version of *ISO 9001* also allows for a review of compensation systems, this possibility is almost unknown – both among companies and certifying organizations. Without being subject to certification, this possibility is rather limited in its attractiveness for implementation. However, it was also pointed out that a few years ago, reporting on environment and climate protection, e.g., corporate carbon footprints, received little attention and is now one of the standards in ESG reporting. In general, it was estimated in the interviews that the reporting of pay gaps, or the review and certification of compensation structures will evolve in a similar way and could become much more important in coming years.

Registration of an independent *Fair Pay Standard*

At this point, a clear statement can already be made based on the interviews conducted. The admission procedure for a *Fair Pay Standard* – based on the Icelandic *Equal Pay Standard* – could be started as a standard in Germany and internationally. However, the text of the standard would have to be adapted by removing the references to Icelandic legislation and the structure would have to be mapped against the *High-Level Structure* of the ISO. Furthermore, there could be some helpful adjustments in content and form.

Three aspects are important for the successful use of a registered *Fair Pay Standard*:

1. the standard brings value to companies and organizations beyond legal obligations, as otherwise the incentive for certification is missing.
2. the application of a *Fair Pay Standard* must translate into harmony of costs and benefits for companies and organizations.
3. the application of a *Fair Pay Standard* must not interfere with collective bargaining autonomy.

► ► ► ► ► **REGISTRATION OF AN INDUSTRIAL STANDARD WITH THE
GERMAN INSTITUTE FOR STANDARDIZATION**

The principle of registering new standards is the same for all proposals – from technical standards to management standards. Any person may submit a standardization proposal as long as it contains a concrete text proposal for the standard as well as justification for the proposal. Before the proposal becomes a standardization project, the need for the new standard is determined and the financing of the process is clarified (DIN, 2021a).

Once the proposal is received, a panel reviews the submission. This review includes:

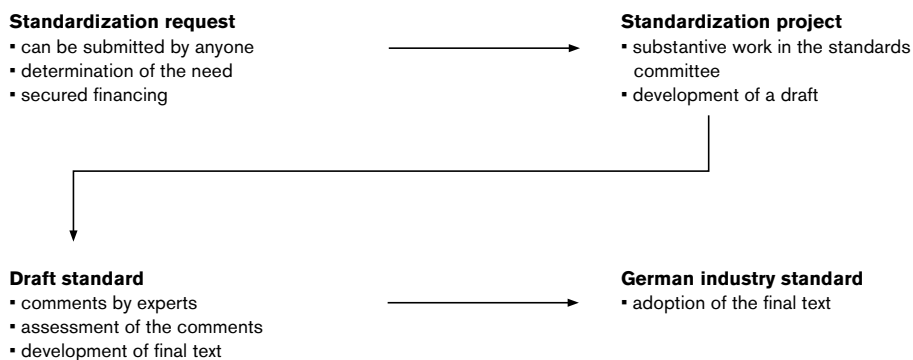
- analysis of the maturity of the submitted proposal,
- assessment of the need for this standardization in organizations,
- assessment of whether the topic has already entered the discussion on norms and standards,
- identification of a standards committee able to develop the proposal further, or clarification of whether a new body would need to be established,
- a check to see whether it is possible to draw on previous standards or draw links to existing texts,
- verification as to whether all relevant stakeholders have been involved in the committee work, or whether additional stakeholders should be included in the process.

At this stage, a decision is made by the standards committee whether to pursue the project or reject the application. If the application is approved, the project is transferred to a suitable standards committee, which begins the technical work. If no suitable committee exists, a new committee is formed. Relevant stakeholders and members of DIN are represented on the standards committee. These include companies, associations, or public authorities. Private individuals can also submit comments on a standardization project.

Funding for the standards project is provided by the members on the standards committee. All stakeholders involved pay the same amount of approximately 1,000 euros per year. This finances the project management and the office work of the *German Institute for Standardization* – and accordingly enables the framework conditions for the exchange of content.

As soon as the standards committee starts work, the submitted proposal will be revised in terms of content. The expert public also can comment on the proposal. The final text is drawn up based on these comments. In general, standards committees work according to the consensus principle. All positions are heard and an attempt is made in the process to work out a compromise that all stakeholders can agree to. This also has an impact on the duration of the standardization process. The consultations and the involvement of the expert public can continue for months, if not years. It should be noted that the *German Institute for Standardization* is responsible for the drafting and distribution of standards. Supervision of whether standards are correctly applied in practice does not fall within the Institute's remit.

Figure 10 **Standardization projects at the German Institute for Standardization (DIN, 2021a)**

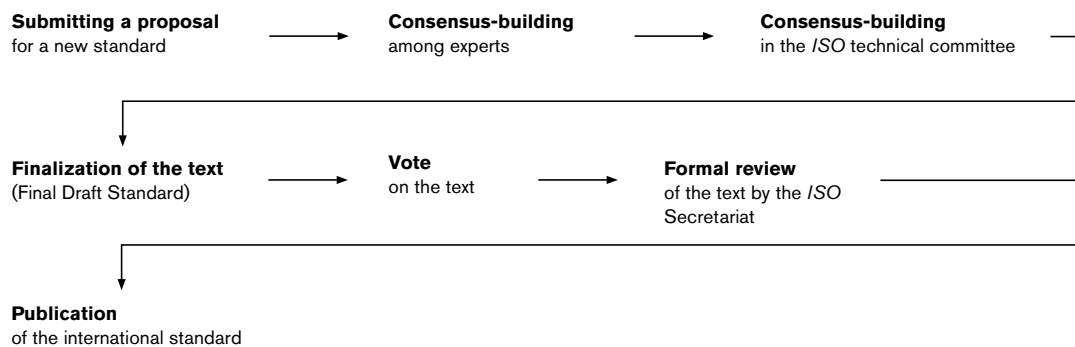


To accelerate the standardization process, it is advisable to involve relevant stakeholders on the standardization committees at an early stage. This can be done even before the application is submitted. The earlier potential hurdles are cleared with participating stakeholders, the faster the standardization process. In addition to companies and associations, stakeholders also include trade unions and employer representatives. Early involvement would be particularly important in the case of compensation, as this is still regarded as a sensitive issue and a matter of corporate sovereignty.

► ► ► ► ► **REGISTRATION OF A STANDARD WITH THE *INTERNATIONAL ORGANIZATION FOR STANDARDIZATION***

The procedure for registering a standard with the ISO is generally similar to the procedure at the German level. Firstly, a proposal for a standard is developed and submitted with an impact and need assessment. What is helpful for the entire process at the German level now becomes an integral part of the process at the international level: a consensus of experts is needed right from the start of the registration process to further discuss the standard text within the relevant ISO committee. Here, the participation of various countries that might have an interest in the content of a new standard is also important (ISO, 2021b). In this specific case, the involvement of the Icelandic, German or French standards institutes would have to be considered, as well as active discussion with trade unions, employer representatives, companies and NGOs. In addition, the involvement of the European standards institute CEN is viewed positively for the process.

Figure 11 **Standardization projects at the International Organization for Standardization (ISO, 2021b)**



The main differences between this and the standardization process at German national level are the inclusion of relevant stakeholders and the reference to the SDGs. Due to their international application, a broad cross-section of national and international actors are also included in the standardization process. As a result, the text of a standard can lose substance, as more actors with different interests must agree on content by consensus and often the lowest common denominator is adopted.

Due to the large number of stakeholders involved in the process and the consensus-building process, ISO estimates the time from the first proposal to the publication of the developed standard to be about three years (ISO, 2021b). However, in the interviews conducted, it was pointed out that the timeframe is currently about one year less than previously, due to a steady increase in demand for management standards, the more widespread adoption of standards in HR management and the overall increase in ESG reporting. In the process, the initial review of the text is generally perceived as the biggest hurdle.

There are no direct costs to applicant organizations in submitting standards. However, indirect costs would have to be expected, which mainly reflect the duration of the process and the personnel effort required to work on the standard and to reach agreement with all parties concerned.

In contrast to the procedure at the *German Institute for Standardization*, the reference to the SDGs and the 2030 Agenda is drawn directly when the application is submitted. ISO standards are thus a lever for disseminating and implementing the SDGs internationally. A *Fair Pay Standard*, when registered, would strengthen the achievement of SDG 5 (gender equality), SDG 8 (decent work and economic growth) and SDG 10 (reduced inequalities), establishing gender equality as an overarching, cross-cutting issue. ISO standards are reviewed every five years and the review of *ISO 9001* is imminent. It is expected that the focus in the text will be much stronger on the implementation of the SDGs to further advance the implementation of the 2030 Agenda.

▶ ▶ ▶ ▶ ▶ NATIONAL VS. INTERNATIONAL STANDARDIZATION

Whether standardization is carried out at national, European, or international level depends largely on two factors. Depending on the topic, there can be major differences in each country, especially in legislation. Depending on the legislation, standards may be necessary unless the theme is already covered by laws, as in the case of occupational health and safety.

This results in another factor. The higher the level of standardization, the more general the content of a standard becomes, since the number of stakeholders involved increases and with them, the number of positions represented which the text must cover. This is where a careful consideration of the level of detail is needed.

Today, many new management standards are being submitted to ISO. This also reflects the new-found importance of addressing ESG reporting or topics such as diversity and inclusion. The interviewees also see the topic of fair pay among these, as an internationally significant topic that is likely to become much more important in coming years.

Standards allow aspects to be regulated for which no state regulations exist or are needed. Since the *Equal Pay Standard* can also be applied beyond Iceland, *ISO 9001* has been established worldwide and fair pay is an international concern, it is recommended that registration with the *International Organization for Standardization* be sought – despite the greater procedural effort. The need for an ISO standard on fair pay is also rated as high due to the escalating international demand for HR and reporting standards.

Certification of fair pay systems

Regardless of whether the review of compensation structures is carried out based on existing standards or whether an independent *Fair Pay Standard* is registered - in both cases, certifying organizations play a central role in implementation.

If existing standards such as *ISO 9001*, *ISO 26000* or *ISO 30414* are to be used to review compensation structures, organizations need to be aware of these options, actively incorporate them into their consulting and certification processes and be trained to answer questions from companies wishing to address the issue.

There is widespread, accessible advice and information about the implementation of *ISO 9001*, *ISO 14001*, *ISO 27001* or *ISO 45001* and the demand for certification is constantly increasing. For certifying organizations, this gives them a steadily growing market. The dialog about ISO and DIN is also actively underway, through the involvement of a wide range of stakeholders. This also includes information on which content could or should be included in an audit. This is particularly important when considering risks. Today, this consideration is part of auditing to *ISO 9001*, but it is questionable whether various legal regulations and possible legal consequences, for example with regard to the implementation of the German Pay Transparency Act, will be included in the discussion.

However, it is up to certifying organizations to decide which standards to include in their canon and how to provide information about them. For new and existing standards, there is careful assessment as to whether or not

there is demand in companies and organizations for certification. Only then are standards included in the portfolio.

If an existing standard is used to implement fair pay in companies, or if a new *Fair Pay Standard* is introduced, both options require broad-based knowledge transfer: this applies to both the companies and the certifiers. This mediation aims at disseminating knowledge about the possibility of auditing compensation systems. Here, the actual content is important, as are the benefits for companies as well as identifying any close links to other management standards.

In addition, it is important to accurately quantify the demand for a *Fair Pay Standard* or for auditing compensation structures using existing management standards. The company survey and interviews for this report have provided an initial insight into this issue and paint a positive picture. However, an accurate needs analysis is necessary to show certifying organizations the demand among companies and to motivate them to include Fair Pay in their portfolios.

Another aspect in the discussion is the integration of already existing testing tools and procedures. The Icelandic *Equal Pay Standard* requires an annual statistical analysis of pay gaps in companies, but no tool is required for this. In Germany, too, various tools and test procedures are already available. Both when registering a new *Fair Pay Standard* and when reverting to existing management standards, testing procedures such as Logib (Lohngleichheit im Betrieb - a Swiss tool for equal pay analysis) or the Equal Pay Check (Entgeltgleichheitscheck - eg-check) can be integrated and used by both certifying organizations and companies. A similar system has been established in Switzerland. There, the Federal Office for Gender Equality provides Logib free of charge as a web-based tool. Companies can use the tool independently to comply with legal requirements. In the meantime, however, some consultancies are actively using Logib to analyze compensation structures for companies and using the analysis to advise how any pay gaps need to be closed.

Conclusion and Discussion

A *Fair Pay Standard*, formalizing both statistical analysis of pay gaps and job evaluation within companies, can cover the measures called for in laws and proposals. The introduction of a *Fair Pay Standard* is supported for this reason.

With the introduction of *Equal Pay Standard* ÍST85:2012 and the resulting legal establishment of an auditing obligation, Iceland has chosen a path towards fair pay that is unique in the world to date. Based on the *ISO 9001* management standard, ÍST85:2012 is practical for companies to apply and can be implemented in any organization, regardless of size or industry.

Since 2017, the application and certification of the standard has been a legal requirement. Between the publication of the standard and its legal establishment, it has become apparent that strong incentives are needed to establish the implementation of a new system such as the *Equal Pay Standard*. In Iceland, the political will for change was the main driving force behind turning a voluntary standard into a legally binding instrument for companies and organizations with 25 or more employees - including sanctions in case of non-compliance. The principle of voluntariness in the implementation and application of standards and norms is often emphasized, but it is not enough; indeed, it has been shown how legal frameworks and sanctions can act as a springboard.

Since the legal introduction of mandatory auditing, two leverage effects have been seen. The analysis of compensation structures and the certification of fair pay systems not only close gaps within companies, but apparently help narrow the pay gap at national level. In addition, the analysis of pay structures has led to broader discussion and changes in corporate culture. Fair pay is not an end but a means to deliver far-reaching changes along the entire HR process. In this way, the Icelandic government is following the principle of regulated self-regulation. Another advantage of the Icelandic *Equal Pay Standard* is its adaptability to the specific circumstances of each company. Organizations can map and regularly review their own structures. The Icelandic *Equal Pay Standard* requires companies not only to calculate the gender pay gap annually, but also to review and implement an evaluation system for all their employees. If the discussion in companies or on political fields of action was long determined by the question whether a statistical analysis (e.g., in application of Logib) or the analysis of job evaluations (e.g.,

in application of the eg-check) should be carried out, the *Equal Pay Standard* creates the shoulder connection between the two analysis procedures. Both procedures are applied at the same time and routinely operated to find existing gaps, close them and keep them closed in the future.

Analysis of the Icelandic *Equal Pay Standard* and consultation with the *German Institute for Standardization* and the *International Organization for Standardization* have shown that incorporation of the Icelandic standard – in a form adapted to the current *High-Level Structure* of management standards – would be possible and could be beneficial. An introduction in Germany is supported by company representatives and trade unions, although representatives from employer organizations are skeptical. The criticism is directed less against the content of fair pay than against the use of management standards in general.

▶ ▶ ▶ ▶ ▶ **A FAIR PAY STANDARD AS PART OF THE OVERARCHING PROMOTION OF EQUALITY AND DIVERSITY.**

Support for laws, reporting and standards is growing worldwide. France in particular has not only taken legislative action with its mandatory Gender Equality Index but is also currently discussing the introduction of an equality standard at ISO. The European Commission also presented a far-reaching directive proposal in March 2021 to finally close the wage gap in the European Union. Meanwhile, in Germany, the German Women Lawyers Association (2021) has submitted a proposal for a comprehensive equality law for the private sector to include fair pay.

In addition, both at the international and national levels, ESG reporting and diversity management in companies are likely to increase. Internationally active companies report a sharp increase in scrutiny of variables such as the gender pay gap by investors and customers, alongside comparisons with direct competitors. The demand for *ISO 30414* and France's push for an equality standard exemplify this development. In areas such as HR reporting and equality, an internationally recognized and registered *Fair Pay Standard* would also be important.



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► ► ► ► ► **OUTLOOK**

The introduction of the *Equal Pay Standard* and the statutory auditing requirement have fundamentally changed the discourse around fair pay in Iceland. The mandated certification has brought about changes in structures, corporate cultures and perspectives on fair pay. For example, job seekers today actively check if potential employers are certified to the *Equal Pay Standard*. Without the Equal Pay logo, companies in Iceland struggle to recruit suitable staff. The legally binding certification therefore also creates competitive pressure between employers. At the same time, there is growing pressure from customers and investors demanding proof that companies pay fairly. This development is still in its infancy but is likely to gain momentum in the coming years.

In view of recent changes to working conditions, increasing flexibilization and digitalization and the ever-louder discussion of which instruments could be used to implement fair pay in organizations, the discussion of standardization procedures is also likely to become more prevalent in companies. Standardization procedures and management standards allow pay structures to be reviewed systematically and, above all, regularly. Reviews of compensation systems can also be integrated into the regular HR process. In the future, pay analyses could be carried out systematically at least once a year in companies and organizations, with continuous improvement embedded into the system. All of this speaks to the introduction of a *Fair Pay Standard*.

Recommendations for companies and organizations

Fair pay and the implementation of fair compensation systems in organizations are not ends in themselves and are not simply a response to legal requirements. Corporate Fair pay is about valuing all employees: it makes economic sense and provides a lever for equality and paves the way for an inclusive corporate culture. The implementation of management standards, based on DIN, ISO or the Icelandic model, is a way to use this lever to formalize compensation decisions and dismiss unconscious biases, while protecting neutral recruitment, promotion and evaluation which are free from discrimination and stereotyping.

Based on this report, the following principles and guidelines for action can be identified for companies and organizations of any size and in any industry:

- ▶ **The burden of proving fair pay rests with companies and organizations.** Fair compensation systems are the responsibility of employers, not employees. Companies and organizations must provide compensation structures that ensure that all employees in the organization are compensated fairly and without discrimination, regardless of gender or other demographic characteristics.
- ▶ **Implementing fair pay in companies and organizations is more than a one-size-fits-all approach.** Companies and organizations differ in terms of structure, size, number of employees and industry. This is why different methods are needed to establish, implement and maintain a fair pay system. A standard, such as the Icelandic *Equal Pay Standard* or *ISO 9001*, provides a way for organizations to implement fair pay without being prescriptive about its content. This allows companies to find their own way and continuously improve.
- ▶ **Companies and organizations need clear targets - metrics and KPIs - as well as internal rules for Fair Pay.** Based on measurable targets, progress can be regularly reviewed and adjusted, depending on the stage of implementation. In addition, measurable targets also create indirect accountability. Organizations can then be evaluated internally and externally based on their objectives.

- ▶ **Clear targets need regular review.** In Iceland, companies and organizations are required by law to calculate pay gaps at least once a year and to introduce neutral assessment systems for activities, which are also audited at regular intervals. Even without pay gap targets, this creates pressure to close any identified gaps and conduct reviews of structures more frequently than each year.

- ▶ **Job evaluations form the backbone of fair systems.** In addition to regular pay gap reviews, job evaluations must also be analyzed on a regular basis. To adapt activities and their value to changing requirements, it is not only the activities themselves that need to be reviewed, but also the valuation standard. A formalized system such as the Icelandic *Equal Pay Standard*, which enables activities to be evaluated using neutral criteria, provides the framework to conduct this type of regular review.

- ▶ **Addressing fair pay triggers a broader culture change.** The companies and organizations that systematically address fair pay usually also analyze the entire HR process - from recruitment to departure. The Icelandic experience confirms this. The introduction of the *Equal Pay Standard* and its translation into law have not only had a positive effect on measured gender pay gaps but have also triggered far-reaching changes in the corporate culture within many organizations.

- ▶ **There are many triggers for implementing fair pay.** There are many reasons why companies and organizations are led to review their compensation structures. Some encounter legal requirements and the need for compliance, others discover quality management systems, such as *ISO 9001* and others are inspired by the burgeoning requirement for ESG reporting. These different reasons mean that the fair pay pathways can also vary accordingly.

The possible pathways for companies and organizations towards fair pay are summarized in Annex 2.

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Annex 1: List of interviewed organizations

Allianz Deutschland AG

Bahlsen GmbH & Co. KG – Werk Varel

bayme – Bayerischer Unternehmensverband Metall und Elektro e. V.

BSI á Íslandi ehf.

Bundesvereinigung der Arbeitgeberverbände, Abteilung Strategie und Zukunft der Arbeit

Bureau Veritas Certification Germany GmbH

Deutsches Institut für Normung e.V.

Deutscher Juristinnenbund e.V. (djb)

Eidgenössisches Büro für die Gleichstellung von Frau und Mann (EBG), Schweiz

Europa-Universität Viadrina Frankfurt (Oder)

FLOCERT GmbH

Gewerkschaft Nahrung, Genussmittel, Gaststätten

HCM METRICS

Industriegewerkschaft Metall

Institute for Social Research, Oslo, Norwegen

International Organization for Standardization (ISO)

Landspítali Reykjavík

Ministry of Finance and Economic Affairs Iceland

mwh HIRSCH Steuerberatungsgesellschaft mbH

PayAnalytics ehf.

Reykjavik Energy

TÜV SÜD AG

TÜV Technische Überwachung Hessen GmbH

Universität Duisburg-Essen, Institut für Arbeit und Qualifikation

vbm – Verband der Bayerischen Metall- und Elektro-Industrie e. V.

VIRK

Annex 2: Graphical presentation of the action guide for companies

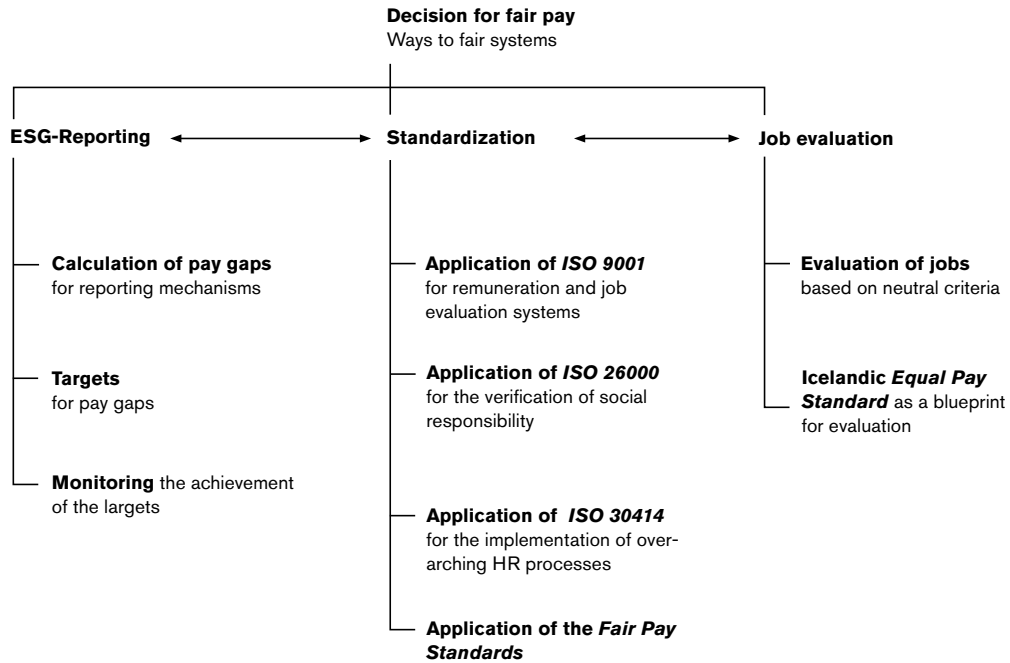


Figure 12: Recommendations for companies and organizations

It should be noted that the strands cannot be clearly separated from each other but may be mutually dependent or even overlap. The important question for companies is where the impetus to address fair pay comes from and who is involved in this discussion. It is recommended that, regardless of the source of the impetus, C-level management should be involved from the outset.

Impressum

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The Fair Pay Innovation Lab ensures equal opportunities in every company and awards them the Universal Fair Pay Check. Our goal: fair pay for all people in the world.

We share possible solutions on how to implement a pay system that is fair for all employees. Those companies who ensure neutral, objective and stereotype-free structures leave no room for discrimination. In this way, inequalities such as the gender pay gap, age gaps, or ethnicity gaps can be closed and any recurrence is prevented. At the beginning of a remuneration strategy, there is always an analysis which enables measures and instruments to be identified, implemented and monitored in a structured manner.

In order to develop the best strategies and find the most suitable measures and instruments, we constantly monitor the latest developments, collect diverse examples of best practices and ensure a constructive exchange between companies. We connect people and think outside the box. Spanning the interfaces between economy, academia and politics, we share our fair pay knowledge with decision-makers and experts in companies and institutions around the world.

As an NGO, we take part in the global discussion on sustainability topics and contribute our expertise towards decision-making at the UN level. In summer 2021, the Economic and Social Council of the United Nations (ECOSOC) has granted us special consultative status.

The Fair Pay Innovation Lab is convinced that equal opportunities are the key to achieving the UN Sustainability Development Goals and that fair pay is key to equal opportunities for all people – no matter where they come from, who they love or what they believe in.

www.fpi-lab.org

Berlin, January 2022



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