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# **A Look At the Gender Wage Gap and Its Reach Into the Field of Accounting**

An Honors Thesis submitted in partial fulfillment of the requirements for Honors in  
Accounting

By

Emily Hall

Under the mentorship of Dr. LeVon Wilson

## **ABSTRACT**

This year's Academy Awards was the background for a call to arms for equal pay for women. After years of legislative reform, women are still making less than their male coworkers; women have begun to fight furiously for a change. Recently, companies as big as Walmart and KPMG have had claims brought against them alleging wage discrimination based on gender. Analysts have proven that in the case of KPMG it is almost impossible for it to be anything other than discrimination. There are several studies behind how the wage gap is calculated as well as the many causes behind why it still exists. This study looks at several possible causes behind lower pay for women as well as solutions, both attempted and proposed, to level the playing field. The field of accounting is focused on specifically and referenced throughout the study.

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## Introduction

While careers in public accounting are known for fast-paced, demanding, and stressful environments, the rewarding compensation helps make the profession worthwhile. Recently, however, wage discrimination between the genders has become more prevalent to the point of national recognition. KPMG, one of the big four accounting firms, is facing a class-action lawsuit from possibly 9,000 of its female employees in accordance with the Equal Pay Act. A statistics expert was brought in to analyze the data of pay disparities throughout KPMG. Early analyses show that wage discrepancies attributed to gender are statistically significant at over eleven standard deviations. This has given evidence that the probability of KPMG having gender neutral compensation practices is less than one in one hundred million as seen in Table 1:

**Table 1**

<u>Year</u>	<u>Coefficient*</u>	<u>Standard Deviation</u>	<u>Probability of Occurring by Chance</u>
2008	-2.5%	-7.46	Less than 1 in 100,000,000
2009	-2.3%	-6.36	Less than 1 in 100,000,000
2010	-2.7%	-7.3	Less than 1 in 100,000,000
2011	-3.2%	-9.44	Less than 1 in 100,000,000
2012	-2.8%	-8.76	Less than 1 in 100,000,000
2013	-2.9%	-8.89	Less than 1 in 100,000,000
*Coefficient represents the percentage by which women are paid less than men			

The women of KPMG are also claiming discrimination in promotion practices, as only eighteen percent of partners are women while roughly half of KPMG's employees are women (Cohn). Currently, over 1,000 former and current female employees have joined a class action lawsuit against the firm (Cohn). Not alone in facing these allegations, two other of the big four also face accusations of wage concerns regarding overtime alongside

KPMG. These issues have been appearing outside of the accounting profession as well; Wal-Mart Stores, Inc. reported increasing numbers of suits filed by female employees on the case of wage discrimination (Walmart). Wal-Mart's financial statements, however, disclosed that currently the litigation was not expected to go against the company nor would it be a material amount if Wal-Mart lost. Currently, Walmart is working to either settle or dismiss all class-action cases brought against them for employee discrimination.

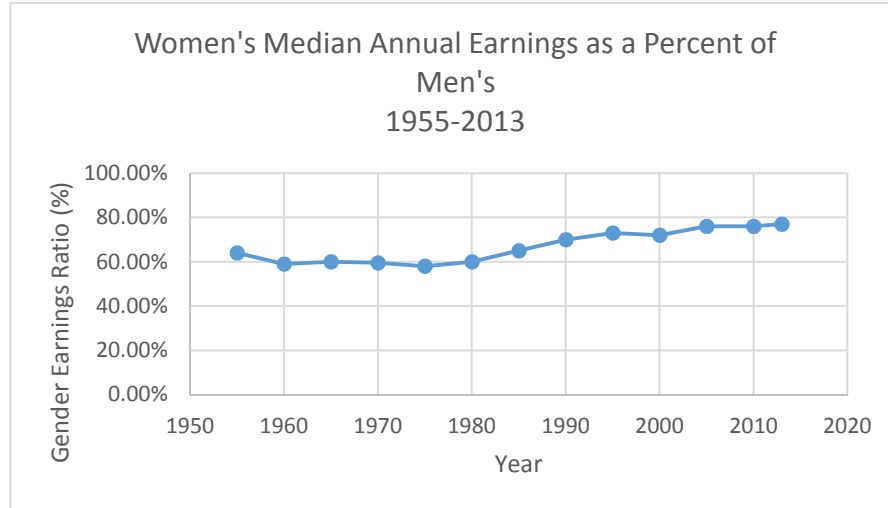
Recently, the gender wage gap has been experiencing a lot of attention. During this year's Academy Awards, Oscar winner Patricia Arquette used her 80-second acceptance speech to advocate for equal pay (Newman). With new legislation in the works to require a portion of the workforce to disclose compensation records and allow employees to discuss their earnings, the gender wage gap is being reexamined and this study looks deeper into the possible causes and solutions behind the pay discrepancies between men and women.

### **The Gender Wage Gap**

As far back as biblical times, women have been valued less while working; a verse in Leviticus values men at fifty shekels while women are worth thirty shekels. During colonial times, women were restricted to specific areas of work. These "tasks of sewing, cleaning, and caring for children and the sick...were viewed as unskilled labor that required no particular education or training and, therefore, were worth less than men's work" (Kulow). Not only were women valued less, they were also considered to have less need than men. A man was the head of a household and responsible for financially supporting his family. Women were not fiscally responsible for their families nor allowed to own property and would usually turn over any money earned to their

husbands or fathers (Kulow). This continued until the end of the 1800's when states began to pass legislature that allowed women to own property, however, the mentality that a woman's earnings were only supplementary to her husband's income continued until the twentieth century (Kulow). During this time, waves of immigrants entered the United States and women had to enter the workforce to support their families. During the time of the World Wars, many women left the home to take the places the men had left when they went away to war. From 1950 to 1990, the amount of women in the workplace rose from 28% to over 57% (Kulow). Throughout the growth of women in the workplace, several measures have been taken to ensure equal treatment, yet pay still experiences a discrepancy. Several actions taken involve legislature intended to remove discrimination including the Equal Pay Act of 1963, which made it illegal for the first time to pay women less than men for the same work (Kulow). This caused a major shift in the compensation costs of firms.

Employee wages can count for "60 to 95 percent of average company costs excluding a firm's physical cost of goods sold" (Larkin). Within an accounting firm, the main operating cost does lie with the employee compensation. According to studies done in 2012, women working in the United States reported to making only 75.7% of men's earnings; this number is up from the mid 1950's where the gap rested at 64.5% (Lip). Within 2014, the number rose to 77% (Glynn). This gap can cause a loss of \$1.2 million over the course of a woman's working life (Kulow). As can be seen in both Figures 1 and 2, women have been making about 75% of men's pay in the U.S. Figure 2 also shows how the United States is not the only country with a discrepancy. An important thing to understand is how this number is calculated.

**Figure 1**

(Newman)

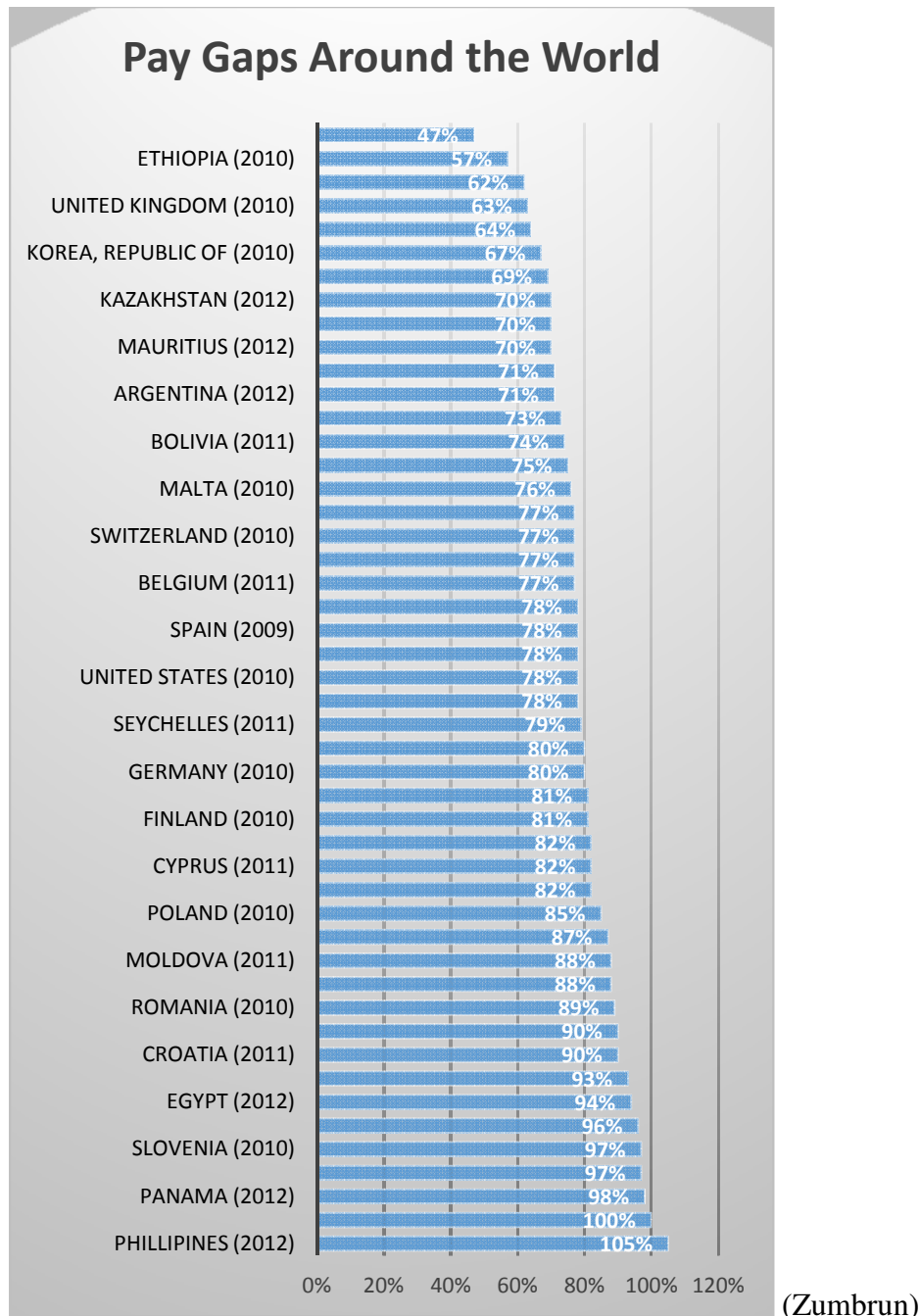
When discussing the issue of the wage gap, many can find it confusing.

Researching can lead to several different figures and facts when determining the actual differences of compensation between men and women. The 77% figure is calculated from dividing the median earnings of full-time, year-round working women by the median earnings of full-time, year-round working men and rounding to the nearest \$100 (Glynn). If one were to move from annual earnings to weekly earnings, he could see a larger percentage of 82 cents to every man's dollar (Glynn). Like all statistics, this number should be taken with a grain of salt. These calculations take into account the differences in jobs held, position within an occupation, years of experience, amount of education, etc. but still reflect any possible discrimination. It does not compare men and women with the exact same qualifications doing identical work.

The compensation differences between men and women result from differences in experience, education, individual choices, and, occasionally, discrimination. Figure 2 also leads one to believe that there are also cultural issues at play. Many of these factors are

tied to a woman's role as a mother. Women choose to be mothers; they choose to take lower paying jobs that allow more flexibility or to leave the workforce altogether. While the KPMG case is appearing to result from discrimination among genders, most discrepancies are because of other factors within the employee's control.

**Figure 2**





## Causes of Pay Discrepancies

Women experience lower pay for several reasons including glass ceilings, less education and experience, “mommy penalties,” and segregating into lower paying jobs. Among these, glass ceilings can be the hardest to prove as they are a form of discrimination and are connected to other factors such as education and experience. A glass ceiling is defined as “artificial barriers based on attitudinal or organizational bias that prevent qualified women from advancing upward in their organization into senior management level positions” (Snyder). It is a problem that has continually thrived in today’s workplace around the world.

The glass ceiling can be described as “a barrier so subtle it is transparent, yet so strong” (Chernesky). From early on, women were not allowed into higher paying jobs since they were considered inappropriate or too dangerous for women (Kulow). Even though it may appear like glass ceilings are pure discrimination, they are not always so. Most decision makers do not consciously discriminate; they tend to favor those that share similar traits with themselves (Chernesky). As of 2010, less than 16% of fortune 500 companies’ board seats, corporate officer positions, or executive officer positions were held by women and only 3% of fortune 500 companies have had a woman as their chief financial officer (Nadler). The profession of accounting is not exempt.

Public accounting has its own challenging glass ceiling as over 50% of new CPA’s are women but only 20% become partner (Reilly). The first certificate for public accounting was issued in 1896 and the first one issued to a woman came three years later and was the 143<sup>rd</sup> certificate issued (Reilly). A glass ceiling was installed soon after.

Women are ten times less likely than their male coworkers to hold positions such as CFO or CEO (Rapacioli). While this may be attributed to more time spent out of the office with children, studies have shown that women are less likely to be promoted or earn higher compensation than men whether they have children or not (Rapacioli). Some women claimed that they didn't experience discrimination, but were discouraged by attitudes and stereotypes existing about women in the workplace (Rapacioli). Many companies have attempted to mitigate this with mentor programs, but with so little women in senior positions, the women are typically mentored by men (Rapacioli). Women are still eager to advance, however, and have attitudes and organizational skills that would push them to the top if not for the perceptions of gender differences (Snyder). Occasionally, women are kept at a disadvantage by the amount of education and experience they have accumulated.

Typically, more education means a higher salary. Women are once again at a historical disadvantage. In colonial America, women were not educated; after the American Revolution they were given basic lessons and mainly worked as educators (Kulow). When they started attaining higher education after the Civil War, they did so in single-sex institutions until after the Depression and second World War when many colleges became coeducational (Kulow). Men were still graduating more often from these institutions even after the Equal Pay Act of 1963 allowing employer's to claim that men deserved higher pay than women (Kulow). In 1972, Title IX was passed banning gender discrimination in education, including athletics; this was proven to have a positive effect on women's standing in the workplace (Kulow). As of 2000, women had begun to earn college degrees more often than men (Kulow). Surprisingly, more education did not

amount to equal pay for women. A 2009 census showed that more educated women earned about \$0.69 to the men's dollar while less educated women made about \$0.77 (Kulow). This fact leads to the belief that education is a factor of the wage gap, but a factor with strange effects. It can also influence other factors.

Since women took longer to leave home for the classroom and workplace, they have less experience than men. Even the women who join the workforce at the same time as men earn less experience because of maternal responsibilities. Because of motherhood, women are more likely to move to part-time positions and/or take a career break for five to ten years (Kulow). It has been found that "the hourly wages of mothers are approximately 5% lower (per child) than the wages of nonmothers" (Staff). According to the human capital theory, parenthood impedes the development of human capital as raising children takes time away from developing job skills or furthering education, activities that are essential early in one's occupational career (Staff). Being a part of the accounting profession often requires "exerting oneself beyond the contract, spending long hours at work and sacrificing private time" (Castro). Evidence found that wage disparities could not be fully explained by differences in education and experience; the difference can also be explained by employer discrimination or differences in work effort between mothers and nonmothers (Staff). Women with children will obviously find it harder to focus solely on work.

As a mother, a woman will invest less into the human capital of a firm (Staff) which will lead to less upward movement and therefore less pay during her career. It is believed that an ordinary job demands "that the ideal worker is work-centered, available full-time for the job, has few obligations outside work and is usually supported at home

by a woman. These characteristics are framed around the stereotypical man and exclude the stereotypical woman” (Castro). This can be troubling for women as motherhood typically makes women less productive in the workplace (Staff). While 40% of new mothers are employed a month after the birth of their first child, only 15% of these women are actually at work (Staff). Research finds, however, that mothers will still accept jobs that require more effort regardless of the extra commitment of children, while the human capital theory insists that women will settle for jobs that offer flexible schedules even if the wages are lower (Staff). Working within the accounting profession can prove to be a challenge to mothers.

Many accounting firms began to embrace flexible work schedules in order to help accommodate parents, but the time requirements for the profession are still extensive. Within accounting firms, time is a valuable commodity that is used to demand and demonstrate organizational commitment (Castro). Employees from a big four firm in Mexico claimed that they often worked about 10 – 14 hours a day which adds up to about 60 – 70 hours a week (Castro). In addition to the long hours, accountants must also gain certifications and work through continuing education programs in order to remain competent in their field. Employees of larger firms must also consider time commuting and traveling to clients. Even if women are able to keep up with their male coworkers in organizational skills and self-referent attitudes, they may not buy into the organizational goals and values of the firm (Snyder). This may be caused by women’s focusing more on their children than their careers.

In today’s society, people are postponing marriage and children while continuing their education and career efforts (Staff). Women are experiencing a much more varied

combination of work and personal life. Research found that even though women are waiting longer to become mothers, they may “initially select occupations in which their human capital may have lower depreciation during those jobless periods. Occupations that rely on human capital with low depreciation, such as office and clerical positions, tend to pay lower wages than those with higher depreciation” (Staff). Women who intend to become mothers during their life will choose to take lower paying jobs that require less skill and education so that they may return to it after their children grow up with little to no new training needed. They may also choose a job considered to be “mother-friendly” with part-time hours or flexible schedules; most of these options that new or aspiring mothers would find appealing will come with lower pay since the jobs entail lower hours (Staff). When all of these factors are tied together, part of the gender wage gap can be accounted for.

Many of the causes already discussed can be rationalized as a common sense reason for lower pay. However, in today’s workplace, even women that have no children and just as much if not more education and experience as their male coworkers are still making less. Women are choosing to stay in school longer and focus on careers more rather than settling down to start a family, yet they are still experiencing lower pay. Even women that break through the glass ceiling earn less than their male equals. Every explanation offered above has exceptions that leave some of the gender wage gap unaccounted for. The only remaining variable that can explain the gap is discrimination. Several pieces of legislature have worked to fight this problem, yet it still thrives because of its difficulty to prove. In the next section, several key labor acts are examined in order to understand the usefulness in eradicating the wage gap.

### **Attempted Solutions to Close the Wage Gap**

The main weapon used to combat unequal pay has been legislation. Starting in 1963 with the Equal Pay Act amending the Fair Labor Standards Act, lawmakers have continually passed new acts to deal with the new cases arising from claimed discrimination. The first step of the Equal Pay Act was arguably the biggest step to achieving wage equality.

The Equal Pay Act of 1963 made it illegal to discriminate pay based on gender; it demanded equal pay for equal work (Burns). Soon after, Title VII of the Civil Rights Act went into effect including gender among the factors not allowed to be discriminated against. While both acts are important for closing of the gender wage gap, the Equal Pay Act can be considered one of the most important. When the act went into effect in 1964, firms were required to repay \$43 million to 104,000 employees; this made it ludicrously expensive, aside from illegal, to continue discriminating based on gender (Burns). At the time of passage, women were making only \$0.59 to the male dollar (Lynn). The law covers all employees of firms that are subject to minimum wage and overtime requirements originally covered by the Fair Labor Standards Act (Burns). According to the U.S. Department of Labor, the “Equal Pay standard provides that employers may not pay employees of one sex employed in the same establishment, for equal work on jobs requiring equal skill, effort, and responsibility which are performed under similar working conditions” (Burns). One problem that the act provides for is that it allows for minor or inconsequential differences, but significant differences are not allowed (Burns). The act also included provisions about how employers were to reduce the inequalities. Employers were not allowed to lower men’s wages to match their female coworkers; at

the same time, labor organizations (unions) are not permitted to cause or attempt to cause an employer to discriminate against an employee (Burns). The second provision was included due to several union negotiations that led to collective agreements specifically calling for different wage rates between men and women (Burns). The act also provides for what is considered to be “wage rates.” It is inclusive of any remuneration for employment which includes fringe benefits; this means that benefits such as overtime, vacation time, insurance benefits, pensions, etc. must be considered when determining equal compensation (Burns). While some exceptions do exist in the forms of seniority or merit systems or incentives, they must be equally available to both sexes. Employers must also follow state and local laws but not while breaking away from the Fair Labor Standards Act. While it can be considered to be one of the most important pieces of social legislature passed, it has not completely closed the gap, which stands at about 77% as mentioned earlier. Today’s society still experiences some hassles with the Equal Pay Act.

Today, if a woman feels that she has been discriminated against, she may file a claim in court under the Equal Pay Act or a complaint with the Equal Employment Opportunity Commission (EEOC) (Lynn). It is strictly up to the individual employee to file the claim and prove the discrimination. From 1999 – 2009, courts ruled in the favor of employers 72% of the time; these decisions were affirmed by appellate courts 92% of the time (Lynn). At the current rate the gap has been closing, it is not expected to be completely eradicated until the year 2056 (Lynn). One major problem with the Equal Pay Act is that it is a complaint-based model meaning that the individual filing the claim is solely responsible for the burden of proof. A woman claiming she has been discriminated

against must be able to prove that a member of the other sex has been paid a higher amount for equal work while possessing equal experience and education. Most often, even if women can prove that their male coworkers do make higher for substantially equal work, employers can claim that they have a business reason for the difference. In one instance, the Third Circuit maintained that men in a department store could be paid more than the women since the men's department was more profitable. While women can file a complaint in court to seek equality, it is a very difficult case to win.

Under Title VII, women make seek recovery of compensatory and punitive damages. However, this legislation contains a huge limitation that makes it practically impossible for women to win a case: Title VII requires that a wage claim must be brought forward within 180 days of suffering, not becoming aware of, any sort of wage discrimination (Kulow). Typically, courts interpreted this to mean 180 days from the "moment that the employer decides to discriminate and issues a discriminatory paycheck" (Kulow). The Supreme Court affirmed this interpretation in the case of *Ledbetter v. Goodyear Tire and Rubber Co* in 2007. Lilly Ledbetter, an employee of Goodyear, was unable to win her case since she filed within 180 days after she discovered the discrepancy and not when the first unequal paycheck was issued (Kulow). Most firms do not allow employees to discuss compensation among their coworkers making it difficult to determine if pay discrimination is occurring; American culture considers talking about how much one makes to be "gauche" (Kulow). Not knowing how much their male coworkers make in comparison can make it impossible for women to comply with the 180 day restriction of Title VII. Congress felt the need to respond to this in 2009.



In 2009, the Lilly Ledbetter Fair Pay Act was passed by Congress and signed into law by President Obama. It was found that “The Supreme Court in Ledbetter v. Goodyear Tire & Rubber Co. significantly impairs statutory protections against discrimination in compensation that Congress established and that have been bedrock principles of American law for decades. The Ledbetter decision undermines those statutory protections by unduly restricting the time period in which victims of discrimination can challenge and recover for discriminatory compensation decisions or other practices, contrary to the intent of Congress” (Brittan). This new act allows victims to file within 180 days of the most recent discriminatory paycheck, as it considers each new paycheck to be an act of discrimination (Kulow). While this act makes it easier to bring a claim for wage discrimination, it is still a large task to prove discrimination has actually occurred. In order to continually, and completely, close the gender wage gap, society needs to continually develop new skills, attitudes, and, occasionally, legislature that focuses on weeding out discrimination.

### **Proposed Solutions to the Wage Gap**

While progress has been made on diminishing the wage gap as well as workplace discrimination, the current cases against KPMG and Walmart prove that it is still a problem in today’s society. In order to continue to eradicate this inequality, changes need to happen in both employers’ policies and attitudes as well as employees’ attitudes. Policies need to be implemented that will increase the difficulty of practicing discrimination as well as the difficulty of defending it in court. Both employers and employees need to work on changing their attitudes and overcoming current stereotypes that exist in today’s workplace. While discrimination will always be a part of life, the

only way to move away from it is to change the culture so that it can no longer thrive.

Women need to work on confidence and negotiation skills in order to start out with higher salaries. Old legislation needs to be amended to catch up with the changing times.

Even today, new laws are in the works to decrease the gap further.

Currently in the works is the Paycheck Fairness Act. If passed, it would amend the Fair Labor Standards Act of 1938, including the Equal Pay Act of 1963 (Brittan). Amending the keystone of labor discrimination legislature is a big deal. As it is currently drafted, it would change the two acts in three main ways (Brittan). It would amend the Equal Pay Act to where it can only differentiate compensation amounts based on a “bona fide factor other than sex, such as education, training or experience” as opposed to how it currently allows it based on any factor other than sex (Brittan). This change will make it much harder to defend differences in pay when an employer is brought to court; an employer must now have a stronger reason to pay women less than men. The new act would also give more protection to people filing claims against employers by broadening the non-retaliation policies of the Fair Labor Standards Act (Brittan). It will also begin to protect employees that inquire into compensation of other employees (Brittan). This will be monumental in allowing women to discover and support a case against wage discrimination. Employers often have little incentive to publish salary information as it will show all discrepancies and demand an explanation. This will also drive a firm’s operating costs upward in order to make up for inequalities that management cannot sufficiently explain. When employee wages make up 60 - 90% of a firm’s costs, this new change can be detrimental to firms that actively participate in wage discrimination (Larkin). President Obama has already begun to move towards better wage disclosure by

signing two executive orders that will allow federal contractors to inquire about coworkers' wages without fear of punishment (Risen). By requiring employers to disclose salary information, the government is taking a huge step in helping working women close the wage gap. The third and final change that the Paycheck Fairness Act will make will allow employees to seek punitive damages as well as make it easier to file a complaint under the Equal Pay Act by dropping the requirement for a plaintiff to opt-in to any current class action suits that apply to them (Brittan). Government action is not the only solution available to women today; both working women as well as employers can take steps towards a positive change.

Outside of legislation, possible solutions to the gender wage gap lay in changing the working culture. One of these changes needs to be a shift in women's attitudes towards the work place. Research found that men typically find their identity in the work place while women find theirs in the relationships they cultivate (Kulow). This paradigm leads to men working more on solving the problems within the workplace while women focus more on maintaining relationships. Men are also more apt to self-promote while women are taught to be "humble, polite, and self-depreciating" (Kulow). When it comes to negotiating, women will not be as aggressive as men. Women who negotiate were actually considered to be "less nice" and managers are less likely to work with them yet were more respectful of men who negotiated (Kulow). The changes that need to occur not only need to focus on women learning to step up and insist they deserve just as much as men but also on society to change how they view women who are more assertive in the workplace. A change also needs to occur regarding the structure of the workplace.

As discussed before, one of the major hurdles for working women is the difficulty in dividing time between family and career. Some people believe that the key to closing the gap “must involve alterations in the labor market, in particular changing how jobs are structured and remunerated to enhance temporal flexibility” (Goldin). While all of the changes would benefit the workplace, the field of accounting has been taking steps for the past several years to close the gap. Accounting firms began to implement flexible schedules as early as 1990 (Cohen). While half of the new accounting hires are women, it was found that women are more likely than men to voluntarily leave the accounting profession (Cohen). Even though firms were providing their employees with opportunities to maximize their professional growth through flexible hours, other employees have come to resent their coworkers for not doing their fair share of the workload (Cohen). While a seemingly good idea, flexible schedules “come at a high price, particularly in the corporate, financial, and legal worlds” (Goldin). No matter which solution or combination of solutions is chosen to close the wage gap, companies like KPMG are going to experience an increase in operating costs. It will be at this point where firms need to recognize the ethical dilemma they are faced with. Costs will be driven upward, but equality in the workplace will be achieved.

### **Conclusion**

Cases that are currently being brought against KPMG and Walmart show that the problem of the gender wage gap still exists. The fact that Walmart lists this litigation in its annual report as materially irrelevant shows how serious the problem is. While women do still more time outside of work as the main caregiver and homemaker, a shift has occurred. Women are waiting longer to settle down and become mothers; they are

focusing more on their early years of career. Education has also leveled out and women are now earning degrees just as often, if not more, than men. With all of these social factors leveling out to create an equal playing field for both genders, it leads to the belief that the main factor behind the pay discrepancy is discrimination and perception of biases. The analyst brought in for the KPMG case found it to be the only possible cause. The main focus on closing the wage gap needs to be centered on rooting out employer discrimination.

Of all of the solutions discussed previously, one of the best to combat employer discrimination is legislation currently in the works to allow compensation disclosures among employees. The biggest hurdle that currently exists for employees is detecting and then proving the discrimination. Whether intentional or not, employers can cover up any pay discrepancies by not disclosing salary amounts and even punishing employees that inquire about the information to coworkers. Allowing employees to know about salary levels of their coworkers will help close the wage gap since discrimination will no longer be hidden. This solution will cause a loss upfront to any firm that has been participating in pay discrimination when employees seek payment of wages they feel they should have been earning. Many firms will be slow to accept this change, but once it has entrenched itself in today's workplace salary disclosure could be the key to closing the wage gap once and for all.

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