CASE STUDY

Eliminating the Gender Pay Gap: Gap Inc. Leads the Way

Kellie McElhaney
Genevieve Smith

© 2017 The Regents of the University of California
Eliminating the Gender Pay Gap: 
Gap Inc. Leads the Way

“If change continues at the slower rate seen since 2001, women will not reach pay equity with men until 2152.”


“Frankly, I would have always assumed that women were getting paid the same amount as men. I mean, they were doing the same jobs. But, back when we started Gap... I don’t think it occurred to many people that women could be leaders. I’m glad to know that things have changed.”

Doris Fisher, Co-Founder of Gap Inc.

On Monday mornings, one Gap Inc. executive used to open his staff meetings chatting about a topic common across America’s corporate offices—the weekend’s football games. But thanks to Gap Inc.’s inclusive culture, one female employee felt comfortable sharing that the many non-football fans around the table felt left out of that conversation. So, he started warming up his meetings with less gender-specific topics.

A research team led by Kellie McElhaney and Genevieve Smith, including Nitisha Baronia and Krupa Adusumilli, developed this case, assisted by Case Writer Susan Thomas Springer. We would like to give special thanks to the following individuals who provided critical insights at Gap Inc.: Art Peck, Michelle Banks, Debbie Edwards, Nancy Green, Julie Gruber, Dan Henkle, Danielle Katz, Erin Nolan, Andi Owen, Peter Pawlick, Sheila Peters, Lauri Shanahan, Bobbi Silten, Sabrina Simmons, Amy Solliday and Keith White.

Copyright © 2017 by The Regents of the University of California. All rights reserved. No part of this publication may be reproduced, stored, or transmitted in any form or by any means without the express written permission of the Berkeley-Haas Case Series.
The corporate culture at Gap Inc. broke gender norms from the beginning. In 1969, Don and Doris Fisher opened the first Gap store in San Francisco as equal partners selling Levi’s and vinyl records simply because they had a hard time buying a pair of jeans. The husband and wife founders grew the company together at a time when there were few women business leaders—yet they made pay equity and female leadership part of the company’s heritage. Today that store has grown into a global brand with e-commerce sites, 3,200 company-operated stores, and about 450 franchise stores in more than 90 countries worldwide. At the time of writing, The Gap Inc., a publicly traded company since 1976, was composed of five divisions: Gap, Banana Republic, Old Navy, Athleta, and Intermix.

In 2014, Gap Inc. made history by becoming the first Fortune 500 company to announce that it pays female and male employees equally for equal work, on average across all its locations (controlling for observable variables). They commissioned a leading gender and diversity consulting firm named Exponential Talent to validate the methodology and numbers. Exponential found no meaningful or statistically significant difference in pay by gender across the global organization. Furthermore, when comparing pay of the median male and median female full-time employee, the female to male ratio was at parity, signifying the high representation of women at all levels of leadership and in managerial positions. Gap Inc.’s leadership in equal pay and gender equality has been publically recognized—for example, the company won the 2016 Catalyst Award.

Since Gap Inc.’s announcement, other companies have followed suit in claiming “equal pay,” and the attention towards mitigating the gender pay gap by companies and governments continues to grow. On June 15, 2016, thousands of men and women gathered at the White House for the first United States of Women Summit, discussing issues such as leadership, educational opportunity, and equal pay for women. Leaders and change-makers from around the world—from celebrities such as Oprah Winfrey to political leaders including President Barack Obama—gathered to advance the state of women and the U.S. economy. At the conference, 28 companies signed the Equal Pay Pledge to take concrete actions, such as conducting annual pay analyses, to lower the national gender wage gap. Gap Inc. took the pledge as well, noting that despite having an exemplary track record for equal pay, they are committed to continuing their work.

Gap Inc.’s company culture has enabled women to rise in the ranks through a variety of policies and practices including diminishing psychological barriers, encouraging mentorship, being family-friendly, and more. This culture of collaboration, inclusion, and close relationships—which can be considered more feminine traits—has built itself over time, creating a structure for women’s advancement and equal pay.

**U.S. Pay Gap History**

Today, women make up nearly half of the workforce in the United States; however, women continue to earn less than men. In 2016, the U.S. Census Bureau reported that the female-to-male earnings ratio

---

2 See more here: http://www.catalyst.org/media/catalyst-announces-winner-2016-catalyst-award.
4 The pledge, which can be taken online, requires that companies “...commit to conducting an annual company-wide gender pay analysis across occupations; reviewing hiring and promotion processes and procedures to reduce unconscious bias and structural barriers; and embedding equal pay efforts into broader enterprise-wide equity initiatives.” Signing companies must also “...identify and promote other best practices that will close the national wage gap to ensure fundamental fairness for all workers.” Businesses that have taken the pledge have noted their specific commitments here.
(based on the median earnings of men and women in 2015) is 0.8.\(^5\) Even when women do the same jobs as men, and controlling for observable variables, a gap persists: women earn between 93-95% of their male counterparts’ salaries.\(^6\) The wage gap, which is due to a variety of variables including social and cultural norms and unconscious bias, results in significant lost wages that add up over a woman’s lifetime and contribute to gender inequality.

At the current pay gap, women will not see equal pay in the U.S. until 2059. For women of color, the rate is slower, with black women having to wait until 2124, and Hispanic women having to wait until 2248 for equal pay.\(^7\) Historically, there have been two important factors in decreasing the wage gap: the increase of females in the job market and reduction of occupational segregation.

Ever since women entered the job market in larger numbers in the 1950s to work during the interwar and World War II periods, the rise of women in the job market has continued. Indeed, between 1947 and 2008, female employment among working-age women increased by approximately 0.6 percentage points per year. This growth has been due to several reasons, including medical advances (e.g., improved contraception and better maternal care) and technological advances that have made childcare and household work easier and more accessible to working women.\(^8\) This increased labor participation influenced wage convergence, and legislation for equal pay further pulled women into labor markets.

There has been considerable progress in reducing the extent of occupational segregation. Since 1970, women have reduced their over-representation in administrative support and service jobs and have made significant inroads into management and traditionally male professions.\(^9\) However, trends have differed across educational groups. Highly educated women have made substantial progress moving into formerly male managerial and professional occupations, while less-educated women have made smaller gains integrating into traditionally male blue-collar occupations.\(^10\) Finally, (and related to reductions in occupational segregation) evolving social norms have naturally eased the gender pay gap as well.\(^11\)

**Measurement Methods**

There are multiple ways to explore “equal pay” and measure the gender wage gap within an organization.\(^12\)

---


**Organizational Pay Gap Analysis**

The broadest option is to compare the average salaries that women and men earn across an organization, at all levels. This high-level analysis tends to result in a larger wage gap, as many companies have a disproportionate number of men in higher paying managerial and leadership positions. As a result, women may seem to be earning a lower average salary than men in the company, not necessarily because each woman is being offered a lower salary than her male counterpart, but because of a leadership gap illustrating that women are not moving up to the higher paying roles in the company.

**Level Pay Gap Analysis**

Compare average male and female pay at each level in the organizational hierarchy (analyst, manager, etc.) across all functional verticals, looking at pay gaps within each management tier regardless of their functional division. This mediates for some of the leadership representation gap; however, it does not consider how jobs within different functional divisions may be assigned different market values. Further, it may fail to account for the disproportionately high number of women in back-end or support positions.

**Like-For-Like Pay Gap Analysis**

Also called equal pay for work of “equal or comparable value,” this is perhaps the most detailed pay gap analysis and it is at this level of analysis that the gender wage gap often seems most narrow. This illustrates the direct difference in the salary that men and women earn in similar occupations, which is much smaller once the leadership gap is accounted for. Defining work that is of “equal or comparable value” can be difficult and requires a deep level of analysis and understanding of comparable work.

The gender pay gap includes both explained (measurable) and unexplained (often difficult to measure) components. Measurable factors (other than type and level of work) include, for example, age, tenure in position, number of subordinates, and geography. Even when all measurable factors are considered, an unexplained gender pay gap persists. This reflects discrimination, implicit biases, social norms, and other factors that are difficult to measure—including possible gender differences in risk-taking, mobility, and ambition.

**How Gap Inc. Measures Pay**

At Gap Inc., managers are provided with pay data for their overall team plus salary information that reflects the external market at minimum once each year during a pay review process. Sabrina Simmons, former CFO of Gap Inc., looked at the entire group as a whole to see where people were ranked and paid when a request for higher pay came in. Through this she examined and corrected for any disparities.

Gap Inc. analyzes pay data annually and provides information to empower managers. Initially, Gap Inc. found limited research and a lack of existing methodologies to create a model to examine equal pay. After some study, they chose two methods of analysis. First, they performed organizational pay gap analysis, which shows a ratio of pay for full-time male versus female employees, not controlling for any variables or levels in the organization. Second, they performed like-for-like analysis, which shows a ratio of pay for all male and female employees, controlling for work of equal value and other measurable factors.

In 2014, Gap Inc. conducted an analysis of both the median pay and average pay for all 34,114 female versus male full-time employees globally, not controlling for any variables or levels in the organization.
The median female to male pay ratio was at parity. The average female to male ratio was slightly lower for women. However, this is representative of the fact that Gap has a higher percentage of women at entry-level positions. Moving into more senior positions in headquarters, the percentage of women and men even out.

Another analysis was conducted to find the pay ratio between male and female employees when controlling for levels and measurable factors for all 129,387 employees (excluding Senior Vice Presidents and above), including part-time workers. In the case of part-time workers, hourly rates were annualized at 40 hours per week and monthly rates were annualized. Gap used a geographically sensitive method of comparing employee pay rates in like jobs across the entire organization. Pay ratios for male versus female employees were developed for each like job by controlling for select variables, including region (as the cost of labor varies by location). Those jobs were then grouped within defined job levels based on the employee’s contribution level, job responsibilities and skill/experience required. Other variables including time in position and team size were not controlled for in the analysis but provided additional context.

The findings were statistically validated by an external management firm, that found that no significant or meaningful gender wage difference at Gap Inc. globally or within any of their major regions. While there have been minor fluctuations by level over the past 3 years, the results are consistent.

**Gap Inc. Empowers Managers and Employees**

Gap Inc. strives to minimize unconscious bias impacting pay through several mechanisms. First, Gap Inc. provides leaders with pay data for their teams at least once per year, and includes market-relevant pay ranges for each role, taking into account geography. They also provide managers with criteria and filters in making pay decisions. Not only do these practices reduce unconscious bias in pay, but according to Mercer (2016), organizations with a robust pay equity process and a dedicated team also have greater female representation. Mercer highlights that only 35% of organizations report a pay equity analysis process built on a robust statistical approach.

The team that oversees pay at Gap Inc. shares with managers and HR partners where their employees are positioned relative to pay ranges that reflect the external market. Managers are provided with a distribution of employee pay in the pay range and are then free to make decisions in terms of paying talent appropriately. The data does not necessitate action from managers, but rather provides them with data to make informed decisions. A promotion/equity budget is a part of the overall annual pay increase budget and can be used to address equity issues. In discussing the pay data provided to managers, Senior Vice President of Loss Prevention at Gap Inc., Keith White says: “When operating eyes wide open and not just treating people as if they are in a vacuum, gender inequality in pay becomes a non-issue.”

Gap Inc. has eliminated performance ratings in HQ and Distribution/Call Centers, and is in the process of expanding this change to stores in several brands. Eliminating performance ratings, which can have gender biases baked into them, does not mean that Gap Inc. has walked away from a focus on performance against goals. They established a Company performance standard and encourage managers to have more frequent and honest touch-base conversations about performance against goals.

---

14 To determine contribution level, Gap has a methodology to level jobs looking at characteristics such as leadership, functional knowledge, area of impact, interpersonal skills, etc. These characteristics are then scored and ranked to drive the contribution level. There is inherently some subjectivity in this process.
Stanford recently analyzed the language of hundreds of performance reviews from technology and professional-service firms and found that managers are significantly more likely to critique female employees for coming on too strong. In addition, women’s accomplishments are more likely to be seen as the result of team—rather than individual—efforts.\textsuperscript{16}

Gap Inc. does not require that applicants provide previous salary information when submitting an employment application. One positive outcome is that for applicants who have been unfairly compensated for their skill and experience in prior positions, their new salary is not anchored to the past. The impact of this hiring policy has been most pronounced among women and minorities.\textsuperscript{17} Typically at Gap Inc., applicants choose to provide salary information and it is discussed during the hiring process, potentially used as a factor in salary negotiations.

Also, Gap Inc. publishes the company’s compensation practices on GapWeb (the Company’s intranet site), which employees can access to understand the company’s pay practices. However, while managers receive pay data for employees on their team, employees can’t see specific pay ranges unless their managers choose to provide them with that information.