Study: The role of firm-specific pay policies on the gender earnings gap in Canada

Released at 8:30 a.m. Eastern time in The Daily, Monday, November 16, 2020

In Canada, women earn 27% less than men, on average. Women tend to work in lower-paying firms than men. Even when they work in the same firm, women tend to earn less than their male colleagues after taking into account worker and job characteristics. These two tendencies contribute to almost one-quarter of the gender earnings gap in Canada. This is the key finding from the study, "What Is the Role of Firm-specific Pay Policies on the Gender Earnings Gap in Canada?", published today by Statistics Canada.

This is the first Canadian study to examine the role of pay-setting within and between firms to explain the gender pay gap. It examines the impact of firm premiums—the differences in pay between firms for workers with similar characteristics (e.g., education, occupation and job tenure)—on the gender earnings gap. The convergence in economic outcomes between Canadian women and men has slowed down since the late 1990s, despite considerable improvement in women's outcomes over the past five decades. Using a large-scale matched employer–employee database from 2001 to 2015, this study sheds new light on the unexplained gender gap in economic outcomes.

The study finds that the average firm-specific pay premium for men is higher than that for women. This difference accounts for 6 percentage points, or nearly one-quarter, of the 27% gender earnings gap in Canada.

The gender difference in average firm-specific pay premiums is then broken down into two components: sorting (the tendency for women to work in firms that have lower premiums) and pay-setting (the tendency for women to receive a lower premium than men in the same firm). On average, these two components are of equal importance, each accounting for 3 percentage points of the 27% gap.

The gender difference in firm-specific pay premiums varies substantially across the three largest provinces. British Columbia has the highest earnings gap (31%), of which 19% can be explained by the difference in firm-specific pay premiums, with women sorting into lower-paying firms playing a preponderant role. In contrast, 26% of the earnings gap in Quebec (21%) can be explained by the difference in firm pay premiums, with a greater part determined by the tendency of firms to pay lower premiums to women than men. Ontario lies somewhere in between in terms of the gap, the difference in firm pay premiums and the relative importance of the two components.

The gender earnings gap increases with age, as does the importance of the component related to women's sorting into firms with lower pay premiums. In contrast, the tendency of women to receive a lower premium than men in the same firm remains relatively constant with age. Similar results are found for women with and without children. Women with children face a higher earnings gap, with sorting playing a more important role.

Compared with single women, married women face a wider gender earnings gap. However, gender differences in firm-specific pay premiums play a less important role for them compared with single women. Moreover, the role of firm-specific premiums among women of different marital statuses is primarily driven by the difference in the sorting effect, as the effect of pay-setting within firms remained relatively constant across marital statuses.

The research article "What is the Role of Firm-specific Pay Policies on the Gender Earnings Gap in Canada?" part of the *Analytical Studies Branch Paper Series* (**11F0019M**), is now available.

For more information, contact us (toll-free 1-800-263-1136; 514-283-8300; **STATCAN.infostats-infostats.STATCAN@canada.ca**).

To enquire about the concepts, methods or data quality of this release, contact Jiang Beryl Li (613-220-9021; **jiangberyl.li@canada.ca**), Economic Analysis Division.