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The Pay Transparency Shift

HOW TO PREPARE YOUR COMPANY

Recently, many organizations have begun to initiate a fundamental shift in their pay practices.

Driven by factors such as rapidly changing legislation and employees' demand for greater pay transparency, this evolution is taking place so quickly that many employers are still unsure of how to keep up.

Most HR and business leaders already know that transparent pay practices are important, but the best techniques for adopting the right level of transparency for their organization's specific needs remain unclear. After all, pay practices should still align with each company's unique culture and business strategy.

Yet, the drivers behind pay transparency are only gaining momentum. And, although addressing these challenges may seem overwhelming at first, we're here to help you navigate the shift and even thrive in it.

In this guide, we'll help you answer the following questions:

- ✔ What's driving pay transparency, and why does it matter?

- ✔ How can you make a strong case for pay transparency in your organization?

- ✔ What's the right level of transparency for your company, and how can you enforce it?

- ✔ How are other organizations approaching pay transparency?

- ✔ What are some practical tips for making transparency work over the long-term?

First, let's look at the key factors that led us to the age of pay transparency.

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Pay Transparency Drivers

Many HR professionals know their organizations need to make their pay practices more transparent, but to get other business leaders on board, they must first make a compelling case. Having qualitative information and hard statistics can be helpful for framing a case in favor of pay transparency.

Here are just a few noteworthy data points on pay transparency to provide context for your case:

- Less than 10% of employers include pay information on job postings, despite the fact that 98% of applicants want to see a pay scale before applying.

- 17% of organizations practice pay transparency.

- 41% of organizations discourage discussions of pay.

- 25% of organizations explicitly prohibit pay-related discussions.

Clearly, there's a polarization when it comes to what employees and candidates want versus what organizations are actually practicing. Employers are catching on, however, and according to Willis Towers Watson research, among more than 1,000 organizations surveyed, more than half plan to increase pay transparency.

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Yet, this disconnect between what employees want and what organizations are actually doing is only one driver behind pay transparency. Here are some additional factors contributing to the surge in transparent pay practices:

- ✔ Pay transparency is always on the news, including coverage on scandals and corporate corruption.

- ✔ Social and crowd-sourced websites such as Glassdoor, Salary.com, and Payscale are making it easier for people both inside and outside of the organization to learn about internal pay practices.

- ✔ Social media has allowed employment issues likepay transparency to receive widespread attention.

- ✔ There is a desire among employees (and in many cases, employers) for greater clarity around pay practices and total rewards optimization.

- ✔ Changing pay equity legislation is forcing companies to look at their pay practices. Advocates and legislators are pushing new policy based on the assumption that stronger transparency laws will lead to more equitable pay practices.

Indeed, legislative changes are taking place across the globe and both throughout various states. Most notably, Colorado has enacted one of the toughest equity laws in the country. It prohibits employers from paying one employee of a certain sex differently than an employee of another sex when they perform similar work, regardless of differences in job titles.

As the regulatory landscape continues to evolve, organizations must prepare by ensuring they have equitable pay practices in place. They must be able to demonstrate non-bias differentiation around pay, using characteristics such as seniority, merit, education, experience, work conditions around travel, and other compensable factors.

With that said, although legislators are trying to engineer a solution, they do understand that the responsibility for businesses will increase. While there will be fines and penalties for noncompliance, new laws generally provide ample time for organizations to come into compliance. Moreover, if pay discrepancies can be proven to be unintentional, companies may be given time to rectify the situation.

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Making a Case for
Pay Transparency

In addition to using the drivers listed in the previous section as fodder for a strong case in favor of pay transparency, you can also strengthen your position by outlining the differences between secrecy and transparency.

Secrecy

In an organization that keeps its pay practices secret, information asymmetry occurs. Because employees feel under or uninformed, there is also a risk of confusion. The organization may appear unfair or untrustworthy, and there is little to no opportunity to make a positive business impact with information on pay and total rewards. Moreover, the perception of pay practices don't match up to the organization's intent or reality: without line of sight into how pay decisions are made, 80% of employees paid above market believe they are paid at or below market.

Transparency

Transparent organizations create clarity for employees, which can increase their confidence that decisions are fair and equitable. This belief can go a long way in driving bottom-line results. Transparent pay practices also allow managers and business leaders to address incorrect perceptions around rewards. Finally, pay transparency can boost employee and candidate engagement. In fact, Gallup research indicates 85% of organizations that have clearly understood pay philosophies have the highest engagement levels.

Common Barriers to Transparency

If pay transparency delivers such noteworthy benefits to an organization, then why are so many still hesitant to adopt it? The fact is that, as with any organization-wide change, the shift towards transparency will require you to overcome some internal hurdles. According to an HRSoft poll, the main barrier to pay transparency is the desire to avoid internal competition and tension. There is a possibility that becoming more transparent will require managers to have some awkward or difficult conversations with their team members. Yet, equipping your leaders with the skills needed to navigate these conversations effectively is the best way to prepare them. The second-most common obstacle organizations face is the fact that they don't know how or when to be transparent. Luckily, this is a solvable issue which we'll address in our next section.

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Determining the Appropriate
Level of Pay Transparency

Few organizations decide to pursue 100% transparency around their pay practices. To determine how transparent your organization should be, you'll need to take a thoughtful approach and consider what will work best for your current and future state. Although transparency will look different in every organization, there are a few helpful guidelines you can use to reach an appropriate level for your company's needs, culture, and goals.

First, as you approach your pay practices, remember to avoid information asymmetry. When you keep details secret and fail to communicate, you lose control of the narrative, and miss out on important opportunities to educate and influence both employees and external candidates.

Next, determine how transparent your pay practices are currently. You can do this by conducting a pay transparency audit. While it sounds complex, it can be as simple as polling your employees using an existing engagement survey. Ask them to rate your organization's level of transparency around pay practices on a scale of one to ten, with one being completely secret and ten being completely open. Then, ask managers and executives the same question, using the same scale.

While each organization will vary, most companies find their employees' average rating to fall within the two to four range, while leaders respond in the six to eight range. This gap between perceptions opens up an opportunity for leaders and executives to learn and create more effective communication practices. And, although it's common for employees and business leaders to expect HR teams to complete this task, the responsibility should fall mostly on the people leaders who make decisions on pay levels for their teams.

A pay transparency audit is useful for not only assessing pay practices and communication strategies, but also fostering an environment in which employees can have conversations with their managers about how compensation is determined and which factors are used in rankings.

While it's not always possible to bring employees and managers into total alignment around pay transparency, regular measurement through these audits, along with ongoing maintenance, can help ensure gaps remain small enough to have a negligible impact on engagement and performance.

Once you've identified where you are now in terms of pay transparency, you can begin to work towards your goal using the PRESS model, which we'll cover next.

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The PRESS Model for Pay Transparency

The **PRESS** model is a framework for pay transparency established by Lighthouse Research & Advisory. It stands for examining **P**rocesses, **R**anges, and **E**quity, while applying transparent practices by **S**tretching and **S**oliciting.

Let's take a closer look at each step below.

- ✔ **Process:** Have a clearly-defined compensation process, and be open about how it works. Avoid taking a "black box" approach, where no one understands the inputs and outputs.

- ✔ **Ranges:** Even if you don't publish publicly, having internal pay ranges available during salary discussions can help employees to feel more informed and engaged. Ensure employees and managers are having conversations around ranges and how decisions are made about where people fall within those ranges.

- ✔ **Equity:** Put fairness front and center. Help employees to see that your organization is committed to ensuring that all employees, regardless of race or gender, are on a level playing field. Demonstrate a systematic, unbiased way to evaluate jobs and performance, and make sure the same measures are being used for all roles.

- ✔ **Stretch:** Becoming more transparent may require leaders to stretch beyond their comfort zones. Encourage them to have conversations with their teams, even if it makes them a little uncomfortable. If they don't feel equipped to have these conversations, HR should coach and advise them in these areas.

- ✔ **Solicit:** Continue to solicit feedback from employees using methods like the pay transparency audit. Doing so will help you understand the evolution of expectations and perceptions around transparency, and allow you to manage your program more effectively.

With this framework in mind, let's see how some companies are approaching pay transparency today

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Pay Transparency in
the Real World

Below, we'll examine three companies which have established their own unique pay transparency methods. While none of these approaches may not look exactly like yours, exploring these examples could help to provide some inspiration as you revisit your pay policies.

Buffer

Buffer, a tech company with employees in 15 different countries, takes a radical approach by making actual salaries (not ranges) completely transparent – not just to employees, but to the world as a whole. On their website, people can find out where employees work and what they make. While this method certainly isn't for everyone, it does reflect this company's core values. For them, transparency promotes a strong remote work arrangement by supporting a culture of trust. They apply this transparency model not only to pay, but also other metrics they've made public, including company-wide equity and real-time revenue.

Eaton

Organizations that aren't ready to default to transparency the same way Buffer does may find Eaton's practices more realistic. This global manufacturing organization has a nine-page document on total rewards available on its website, viewable by both internal and external parties. The document includes information on the company's total rewards philosophy, offerings, and pay practices, including salary bands, merit pay, and promotional options. They disclose how decisions are made when it comes to pay practices so everyone has a clear line of sight.

Chevron Federal Credit Union

On the front page of the "careers" section on Chevron's website, the company outlines its total rewards offerings. Yet, they include more detail than you might normally see online to clearly and precisely communicate their pay practices at a high level. For example, they include the company contributions made to the employee's 401(k) and starting and maximum days for paid time off. Candidates can also find salary ranges for specific job postings.

For additional guidance on how to put pay transparency into practice in your own company, let's review someuseful tips in the next section.

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Practical Tips for
Pay Transparency

Now that we've gone over some high-level strategies for increasing transparency in your organization, here are some specific, practical tips to help you get started.

1. Develop an Authentic Total Rewards Philosophy

A clearly-defined total rewards philosophy that's authentic to the organization should be easily understood by all employees and leaders. It's important to take measures to ensure the philosophy is authentic, and not aspirational. This philosophy serves as a true reflection of the organization's pay practices and should:

- ✔ Align your organization's mission, values, and objectives to employee pay

- ✔ Attract, retain, and motivate employees

- ✔ Determine how pay impacts your employees

- ✔ Provide a clear, direct statement and commitment

- ✔ Reinforce alignment between rewards practices, HR, and business strategies

- ✔ Initiate discussions concerning compensation and rewards

Your total rewards philosophy can also be used to determine where your organization targets and pays out rewards, and how you balance the various elements of total rewards.

2. Focus on Total Rewards

The ways in which you reward your employees for their time, talent, effort, and results should encompass both monetary and non-monetary rewards. The key elements of total rewards should include:

- ✔ Compensation
- ✔ Health and wellness
- ✔ Financial security
- ✔ Retirement and savings

- ✔ Life changes and challenges
- ✔ Development
- ✔ Flexible work schedule
- ✔ Tools of the trade

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3. Communicate Effectively

George Bernard Shaw once said, "The single biggest problem in communication is the illusion that it has taken place." When it comes to ensuring that what is heard and understood aligns with what is intended, there are a few pieces of advice to bear in mind:

- ✔ Know your audience and the messages you want to provide to them. Is your organization global with multiple languages? Do you have a diverse employee population with multiple generations? While you'll want to keep your messaging consistent, it's also important to consider any ways you might need to segment communications to create the right impact.

- ✔ Make sure messaging is consistent regardless of who it comes from. To foster trust and confidence around pay, all people leaders and HR personnel should deliver the same messages to employees.

- ✔ Communicate often – having conversations once a year isn't enough. Develop a communication timeline, and make sure you've built in opportunities to keep all parties in the loop. This will show your employees that compensation is a priority to the company, and that you're open to having pay-related conversations in appropriate times and places.

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Conclusion

For many organizations, a pay transparency shift is on the horizon. While it may seem daunting to become more forthcoming about pay practices, it will soon be necessary due to factors such as legislative changes and competitive pressures. Getting started now will give you time to put appropriate practices in place that fit your organization, its culture, and your goals.

Before you go, here are a few final tips to keep in mind:

✔ **Make a strong business case.**
From employee and candidate expectations to increasing news exposure, there are many drivers behind pay transparency. To make a compelling case that will resonate with your key stakeholders, focus on engagement and business outcomes. Use hard, statistical data to frame your case – not soft measures.

✔ **Use frameworks to determine your organization's transparency level and readiness.**
Transparency audits, the PRESS model, and focus groups will help you develop a culturally-appropriate level of transparency.

✔ **Ensure there is rigor to your rewards practices.**
Create a clear, authentic philosophy that aligns with your organization's structures, policies, and practices. Focus on both monetary and non-monetary total rewards, and communicate clearly and frequently.

✔ **Don't try to boil the ocean.**
Like any other worthwhile change, the pay transparency shift can be broken down into smaller milestones. Create accountability to drive incremental progress.

Although it will take time and effort to embrace transparency, doing so can help you build trust within your organization, which could translate to better engagement and performance. Transparency can also put you in a better position to prepare for legislative changes and to compete with employers in your talent market. Thus, while transformation won't happen overnight, the long-term pay off you see will be well worth your effort.

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Kathleen is the Practice Leader for the HR and Total Rewards Solutions teams at The Talent Company. She leads the delivery of HR and total rewards consulting, on-demand and recruitment services.

Kathleen partners with The Talent Company's clients to help them optimize their teams and elevate their HR function. She works closely with organizations of all sizes across the globe, helping them understand how to leverage proven and trending practices to build and optimize their teams as well as refine their HR strategies and practices.

A passionate advocate for elevating talent and people practices within HR and total rewards, Kathleen is an active participant and speaker at a number of HR, leadership and industry conferences and events. Kathleen is also a mentor to HR and business professionals, having advised individuals from the start of their career up to the VP level.

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