

# The case for pay transparency

Why sharing more is critical to an elevated employee experience

welcome to brighter



According to WorldatWork's 2020 *Pay Transparency Study*,<sup>1</sup> 67% of organizations in 2020 view pay transparency as increasingly important. However, the report, conducted with underwriting support by Mercer, shows that only 14% of organizations are giving pay transparency more than a "moderate" level of attention.

This disconnect between acknowledgment and action provides an opportunity. Given the "new normal" of pay transparency in modern business and society, it's time to go one step further and put your pay transparency story into action in a way that impacts employee experience.

# The case for pay transparency

Pay transparency has the power to build or bog down an organization's employee experience. WorldatWork defines pay transparency as the degree to which employers are open about what, why, how and how much employees are compensated — and to what degree they allow employees to share that information with others.<sup>2</sup> This concept can extend beyond base pay to include variable pay and other rewards components as well as other aspects of rewards (for example, promotion, recognition, development and performance management).

Pay transparency doesn't mean revealing what each employee is making. It's about establishing and communicating pay practices that help employees understand how their salary is set in the context of market and business realities. The goal is to build employee confidence in the fairness of that process.

The business case for pay transparency covers three distinct areas:

- 1. Legal compliance:** Pay transparency of some form is a legal requirement in an increasing number of states.
- 2. Employee experience:** A culture of transparency drives better workforce outcomes.
- 3. Pay equity:** Pay transparency, when coupled with robust analytics, can support fairer pay equity outcomes.

## Pay transparency is a legal requirement

This is obvious, so we'll go through this quickly. An increasing number of state and local governments are taking a stand that favors some form of pay transparency. Sometimes these laws give job applicants the right to more information about the pay for a role than the information existing employees are entitled to.

To avoid situations where existing employees find out about the pay ranges for their jobs from external applicants, employers will want to think beyond just meeting the bare-minimum legal requirements in terms of pay transparency.

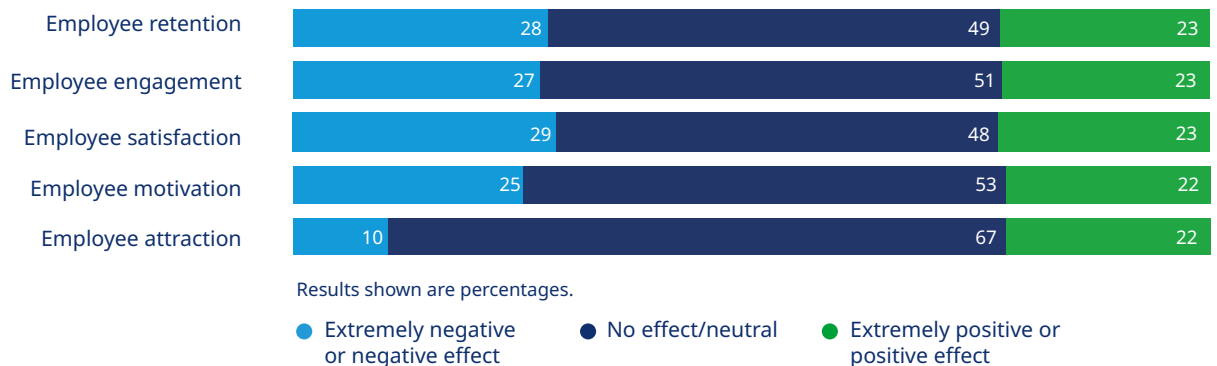
## Pay transparency can lead to a better employee experience

Pay transparency isn't just a regulatory issue. It's also an employee experience issue for your organization. Today's employees have increasingly high expectations around pay transparency, as many job- and pay-related websites facilitate democratized, employee-driven conversations about pay. Companies who don't actively engage in a dialogue on pay transparency could risk losing the trust of their employees, candidates and even their customers. And while pay transparency is resulting in more positive outcomes from an attraction perspective, there are opportunities to ensure transparency benefits all aspects of the employee experience (see Figure 1).

A recent PayScale study reported in Fast Company<sup>3</sup> shows that reassuring employees that they are being treated fairly in comparison to their peers can have a positive effect on job satisfaction, employee engagement and productivity. Some leaders are starting to understand this connection. The WorldatWork study found that nearly a quarter of leaders believe pay transparency has a positive or extremely positive impact on employee outcomes.

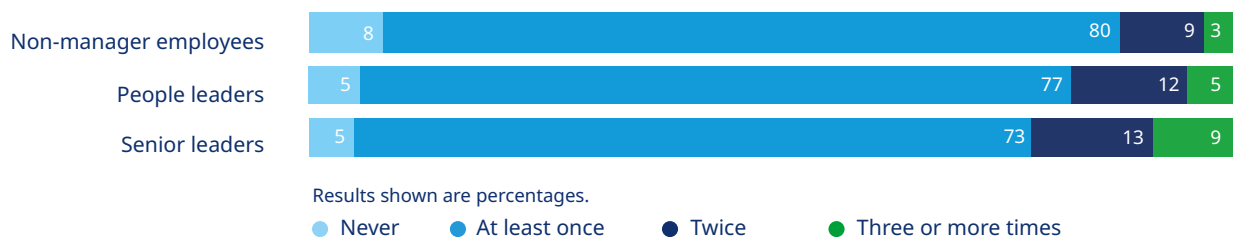
Yet most companies still fall short in communicating to employees about their own pay. Currently, 80% of companies discuss employees' pay with non-managers only once a year (see Figure 2). The number is marginally better for leaders, but companies need to improve communication with employees at all levels if they want to capitalize on the benefits of pay transparency.

**Figure 1. What impact do you believe your organization's degree of pay transparency has on the following outcomes?**



Source: WorldatWork's 2020 Pay Transparency Study.

**Figure 2. How often did your organization communicate with individuals in the groups below about their own pay in the past 12 months?**



Source: WorldatWork's 2020 Pay Transparency Study.

### Pay transparency supports pay equity

One of the most important results of pay transparency is an increase in pay equity. Pay equity is often conflated with pay transparency, but they are two very different concepts.

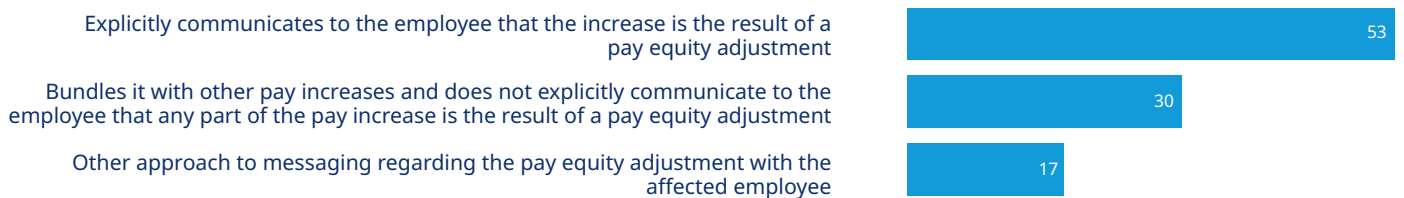
- **Pay equity** is achieved by measuring and remediating pay gaps through robust analytics — and in some cases, it goes a step further by using root-cause analysis to identify and prevent the creation of pay inequities in the first place.
- **Pay transparency**, on the other hand, is about engaging with employees on the topic of pay opportunity by clearly communicating pay structures, ranges, practices and opportunities.

According to PayScale research,<sup>4</sup> when women report that their organizations engage in transparent pay practices, they are also more likely to report that their pay is on par with that of their male colleagues. Compared to the overall gender wage gap — where women currently earn \$0.98 cents for every \$1 earned by men after controlling for legitimate factors — the wage gap effectively closes at all job levels when there is pay transparency.

The WorldatWork research also revealed that more than half of companies who made pay-equity adjustments tell employees that such adjustments are pay-equity related (see Figure 3).

**One of the most important results of pay transparency is an increase in pay equity. Pay equity is often conflated with pay transparency, but they are two very different concepts.**

**Figure 3. In terms of individual communications to employees affected by a pay equity adjustment, our organization:**



Results shown are percentages.

Source: WorldatWork's 2020 Pay Transparency Study.

## Overcoming barriers to pay transparency

Pay transparency isn't always easy for companies. It presents both cultural and structural challenges. Here are three typical barriers and how to work on overcoming them while meeting employee expectations:

### 1. Your organization can't share your salary ranges because you don't follow your salary ranges.

This is typically a salary structure design problem. A well-designed pay structure will set you up for long-term success by balancing market realities with a need to communicate to employees. In our experience, companies pay too little attention to salary range design because they don't expect to share pay range information with employees.

### 2. You're afraid to show your pay information because people will suspect pay inequities.

Avoidance is no longer a strategy. As pay equity laws continue to strengthen and consumer demand continues to grow, it won't be a question of "if" but "when" you have to disclose your approach to ensuring pay equity — and potentially even the results. Our clients increasingly report that more candidates are asking about pay equity practices, and many candidates will turn down offers from companies without a cohesive story on pay equity.

### 3. You're afraid sharing will expose you to risk.

If you're worried that communication will increase your risk, you have good reason. The research from WorldatWork revealed that 61% of managers are not trained to effectively communicate pay information to their employees. Enabling managers to explain pay with empathy and logic requires updated communication skills. A clear pay transparency communication strategy is essential.

As you consider your journey to greater transparency, it is important to consider multiple audiences. Each audience will have its own priorities, and how you communicate with them and measure success will vary.

Figure 4. Illustrative pay transparency audiences

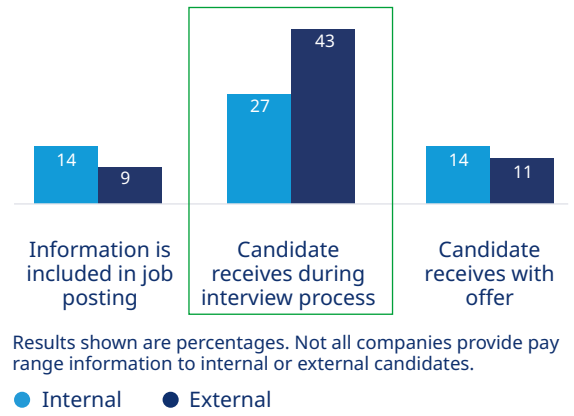
Audience	Audience priorities	Communication objectives	Channels	Metrics
Candidates	Do I want to apply?	Attraction	Career platform	Pool size and diversity
Recruiters	How do I convert applicants?	Consistent messaging	Career platform	Acceptance rate
New hires	Is this what I expected?	Honoring "the deal"	New hire microsite	Quick quit rate
Employees	Am I paid fairly?	Retention and engagement	Workday	Engagement scores
Managers	How do I discuss pay?	Empowerment	Workday	Compensation tickets

## A roadmap to pay transparency

Here are three things companies can do to increase pay transparency:

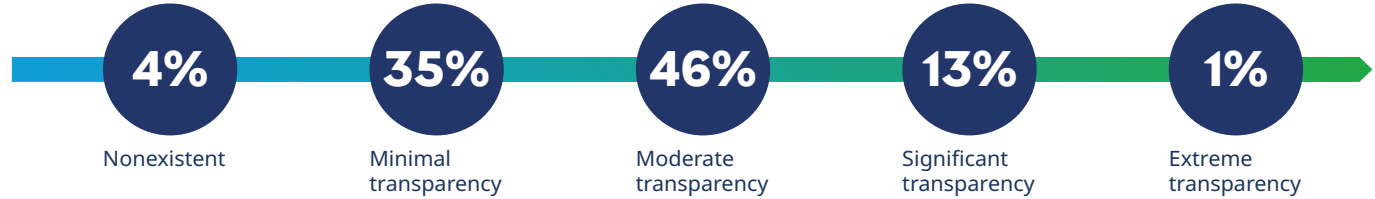
- 1. Equalize experience for both employees and job candidates.**  
Reflect on communications about your pay ranges and how they may differ for internal employees versus external candidates. Companies reported in the WorldatWork study that they are more likely to be transparent around compensation with *external* candidates, particularly during the interview process, than with their own employees. Clearly communicating pay practices and salary ranges to all employees can ensure organizations avoid inadvertently offering a better experience to external candidates than to their own employees.

**Figure 5. Hiring pay range for internal versus external candidates**



Source: WorldatWork's 2020 Pay Transparency Study.

**Figure 6. Indicate how you would rate your organization's overall state of pay transparency with employees**



**Figure 7a. Timing of internal candidates' first receipt of pay-related information**

	Existing employees have access to this information for all roles	Information is included in internal job posting	Candidate receives during interview process	Candidate receives with offer of promotion	Candidate receives during negotiation (if appl.)	Candidate receives with congratulatory letter	Information is not made available prior to promotion date	Not applicable
Hiring pay range	5%	14%	27%	14%	6%	1%	18%	14%
Salary range	11%	13%	19%	5%	5%	1%	28%	18%
Bonus/short-term incentive target	8%	6%	30%	27%	6%	3%	6%	13%
Long-term incentive target	2%	2%	21%	21%	5%	4%	9%	38%

**▲ A minority of employers currently share pay information with employees, even though internal candidates receive more information.**

Source: WorldatWork's 2020 Pay Transparency Study.

**2. Stop thinking about only what you *have* to do and focus on what you *should* do.**

It's necessary to comply with existing laws around pay disclosure today, but proactive organizations will work to resolve structural issues and gaps to mitigate both existing and future risk. While 18% of organizations report being transparent largely due to regulations, more than 40% say their transparency goes beyond just what's required or motivated by regulations alone.

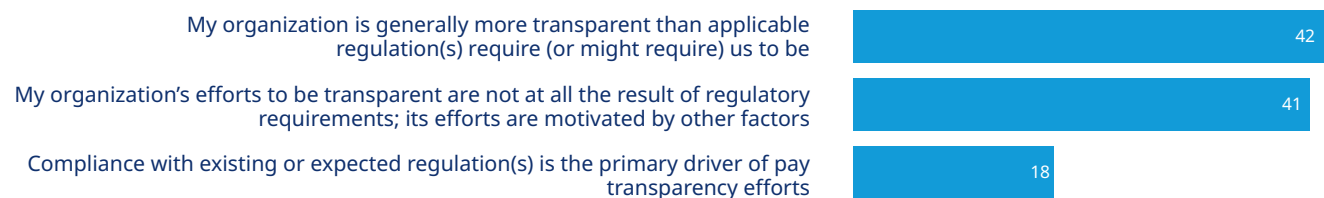
**Figure 7b. Timing of external candidates' first receipt of pay-related information**

	Information is included in external job posting	Candidate receives during interview process	Candidate receives with offer of employment	Candidate receives during negotiation (if appl.)	Candidate receives with welcome letter	Information is not made available prior to start date	Not applicable
Hiring pay range	9%	43%	11%	10%	0%	15%	12%
Salary range	7%	23%	8%	9%	0%	37%	16%
Bonus/short-term incentive target	2%	39%	29%	12%	1%	4%	13%
Long-term incentive target	1%	24%	23%	9%	1%	7%	36%

**Although 43% of external candidates receive a hiring pay range, the actual salary range is still not shared prior to joining.** ▲

Source: WorldatWork's 2020 Pay Transparency Study.

**Figure 8. How much is compliance affecting your approach to pay transparency?**



Results shown are percentages.

Source: WorldatWork's 2020 Pay Transparency Study.

### 3. Map out your pay transparency journey.

As with any organizational transformation, the first step is mapping your journey. You have a spectrum of solutions at your fingertips, but here are the guidelines we follow when working with our clients:

# 1

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#### Assess your situation

Start at your foundations — which include job architecture, pay strategy, pay equity and employee perception — and make an honest assessment of each. Start by looking at how well defined your jobs are and whether a compensation philosophy exists.

# 2

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#### Define your story

By defining your story, you can help foster a culture of trust and fairness that matches your public perception. Think about who you'll share your story with, how you'll share it and why it's important.

# 3

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#### Solidify your foundations

Study your ecosystem and fix the foundations that are lacking or don't make sense. Ensure your jobs are well defined and revise salary structures to support your pay philosophy.

# 4

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#### Implement transparency

Use tools such as digital platforms and manager tool kits to implement changes. By highlighting and supporting the value to employees — such as skill development and future earnings potential — you can create a positive, compelling culture shift.

# 5

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#### Share your story

Define your broad message, then craft specific messaging to reach your different audiences — from job candidates to new hires and managers.

# 6

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#### Measure impact

By using tools such as candidate surveys and employee engagement surveys, you can assess your impact. Explore why candidates are interested in working for your organization and why they decide to stay.

### Begin your journey to transparency

Companies that do not act now on pay transparency are limiting their ability to provide a compelling employee experience as well as their ability to attract and retain top talent. To understand more about how Mercer can help you navigate your pay transparency journey, contact us at [mercer.us/contact-us.html](https://mercer.us/contact-us.html) or reach out to Tauseef Rahman, Partner, at [tauseef.rahman@mercer.com](mailto:tauseef.rahman@mercer.com).



