

Pay Transparency – Understanding the benefits and steps to take

There is a global trend and desire for more transparency in all dimensions of business. Pay is just one of them. Technology platforms have democratised and shed spotlights on aspects of jobs that might previously have been kept secret. Additionally, the expectation of particularly GenZ talent, is to work for companies who are open, authentic, and more egalitarian.

One very real consequence is that employers must now face up to the reality of employees' discovering salary data from external sources. Faced with this reality, we believe there are significant advantages to embracing transparency and presenting pay data in a constructive manner. A proactive approach has many advantages over the alternative. The devil is often in the detail and ensuring the right context is critical.

Some time ago we came across an article written by *Otta* Founder *Theo Margolius* and subsequently had the privilege of talking with him. Theo founded Otta based on the premise that the job market was ripe for disruption by creating more transparency for job seekers about jobs and companies. *Otta is now one of the fastest growing recruitment platforms in the UK*. A key dimension was to advocate increased pay transparency. To further promote

this Otta created a list of the *Salary Transparency Champions*. Interestingly, but not surprisingly, we couldn't find any Footsie 100 company on the list. Smaller companies and start-ups with a younger workforce are far more likely to be transparent about pay than established larger businesses. This reinforces how difficult it can become to confront enshrined beliefs. New companies are not burdened by the accumulated dogma of corporate folklore. And, admittedly, it is easier to start with transparency than change later down the road.

For companies that do consider pay transparency, there are 5 *steps* to be sure about before proceeding:

1. Values: Do we really value and are we willing to embrace transparency as a business. In today's world we would strongly recommend transparency. However, it needs to fit with the values of the company and its leaders. This needs the genuine buy-in from the executive team, in partnership with HR, Legal, and Finance functions.
2. System: It's vital to have a structure and system to compare position and jobs both internally and externally. There are a number of products in the market, some simpler and more pragmatic than others. But it is vital to have a framework like a 'banding and benchmarking system'. This will require some investment of time and expense to install and validate.
3. Pay Philosophy: Perhaps it sounds obvious, but you will be amazed how few companies have a coherent pay strategy. This is a foundational requirement without which it is impossible to demonstrate a coherent logic. It's important to establish early on what should be rewarded and whether to, for example, focus on team or individual performance, and how much of pay should be linked to performance targets.
4. Performance Metrics: Increasingly there is a shift away from individual measures of performance in the traditional annual cycles. However, there will likely be some variation in pay for people in similar jobs. There needs to be a very clear understanding (linked to 3 above) of what the criteria is for pay differentiation. Whether it is tenure based, skills based, or performance related, it is a pre-requisite for pay transparency. This is one of the biggest shortcomings of most companies. Many businesses large and small can't clearly define and articulate what constitutes the goal of any pay differentiation. Often, we find, companies are surprised to discover the uncomfortable truth that pay has become distorted by placating the loudest and most disruptive, rather than the most deserving.
5. Management of Change: Enhancing pay transparency can be a catalyst for significant improvement in a company's culture. Done well, transparency can enhance trust and increase employee engagement. On the other end of the spectrum, if not done well, it can be very disruptive, costly, and value destructive. One golden rule is to robustly address any

discovered disparities that emerge. If anomalies become apparent... tackle them swiftly and definitively. If large gaps are identified, establish an affordable timeline and be clear and transparent in communicating the plan to rectify.

Following this approach will make sure your company is not only ready to be transparent but has reframed the subject into something more than simply defensive. First, it will create a real incentive for management to be more consistent and disciplined with their pay decisions. Second, it will reduce sources of mistrust when pay ranges are made transparent. Talking about above average pay, or job appropriate pay are much better understood and believed. Third, perhaps counter-intuitively, satisfaction with pay will generally improve. It is extraordinary how much about pay is supposition and misperception. Transparency stifles the oxygen in which these can grow.

Perhaps this sounds daunting. Doing something well does require some work and as the saying goes *a goal without a plan is just a wish*. Moreover, there is something of an inevitability about embracing greater transparency. It's the future and where the world is going. It's what the next generation wants. However, how one holds pay transparency is very revealing and somewhat self-fulfilling. If we are determined to approach this reluctantly, half-heartedly, we are sure to get mediocre or counter-productive results. However, if we genuinely see this as a means to invest in employees as partners, in the pursuit of a grand purpose, mission, or outcome, then it can be liberating and propel your venture to new heights of performance.

We believe the trend toward transparency is immutable. The only question is really whether a company embraces it willingly or has it imposed upon it. As *Dale Carnegie* famously said, "*People work for money but go the extra mile for recognition, praise and rewards.*"

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