Pay transparency remains a hot topic among compensation and HR professionals. However, it is still somewhat controversial to discuss pay strategy openly with employees. There has been a lot of buzz about pay transparency, everything from employer driven initiatives (Buffer) to employees taking it into their own hands (posting spreadsheets of pay online). Employees increasingly expect transparency around pay from their companies, and companies are starting to deliver. Are you?

**Transparency: Let’s Get Clear**

Before we get too far, let’s clarify what pay transparency is and isn’t. Pay transparency is not an on/off switch; it’s not all or nothing. The PayScale definition of pay transparency refers to the level at which you are transparent about some of the key decisions your organization makes regarding pay. This includes your pay philosophy, pay strategy, pay practices, market studies, and finally, pay rates. Pay transparency is a lot more than just the dollar amount you pay each employee. How you come up with pay, what is important to you, whether or not you use grade assignments or ranges, how or if you use studies are all important aspects of pay transparency.

Every organization has to pick the right level of transparency to fit their culture, workforce, talent strategy, and business objectives. More and more, employees are expecting some degree of transparency, so let’s help you figure out what works for your organization and how to get there.

**The 5 Levels of Pay Transparency**

We’ll start with a description of each level of transparency on the spectrum. Then, you’ll want to identify where your organization currently sits on the spectrum, and where you’d hope to ultimately be. The key is then developing a solid plan to get from What to Where, for example.

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“Here’s what you get paid”  “Here’s how we use market data to determine pay”  “Here’s where your pay falls and where you can go”  “Here’s why we pay like we do”  “Here’s everything you want to know about everyone’s pay”
Paycheck. “Here’s what you get paid”

In this level of transparency, organizations tell employees what and when they get paid. There may be a brief conversation about it or there may not. If there is a conversation, it often includes the phrase “go ask HR.” This level is a missed opportunity to talk with employees about what’s working well, job expectations, development opportunities, and what matters most to that individual employee.

Market Data. “Here’s how we use market data to set pay”

Organizations get market data for some critical roles. They may or may not attempt to get data for all jobs, however if they do, some key aspect of a full market study is likely missing. That may be a reliable data source, compensation strategy, or alignment to organizational objectives. While managers may share market data with employees, they don’t always have the answers to follow-up employee questions.

Comp Plan. “Here’s where your pay falls in range”

From this point on in the spectrum, PayScale identifies organizations as being transparent, in one form or other, with their comp plan.

Organizations have now fleshed out their comp plan with philosophy, strategy, ranges and/or grades, policies, and practices. Employees learn where their pay falls relative to the range, and get a sense of potential movement in the organization. Organizations may share more, including market data, an explanation of how they arrived at the data, or organizational priorities that may have been taken into account.

Culture Alignment. “Here’s why we pay like we do”

By this level of transparency, organizations use their comp plan as an extension of their culture, aligning their talent strategy to accomplishing business results. They know that because managers are most likely to talk about pay with employees, they should train them to do so well. The “why” or rationale for pay decisions is discussed more openly.

Open Salary. “Here’s everything you want to know about everyone’s pay”

Organizations that have Open Salary policies often share all ranges, as well as actual salary information. This may be done internally or externally. Some think of this level of transparency as radical transparency, while others find that it represents the perfect representation of their organizational values.
5 Reasons to Consider Pay Transparency

Why would you want to consider increasing pay transparency in your organization? There are a few driving reasons why it may make sense for your organization. Here are the top five reasons to get us started.

Reason #1 – Transparency drives engagement.

Employees who perceive a ‘fair and transparent pay practice’ have lower intent to leave and higher satisfaction. That said, engaging employees shouldn’t be done just for the sake of engagement, but as a way to drive business results.

Reason #2 – Transparency drives performance.

There was a study done to capture the relationship between performance and transparency in a restaurant setting. Researchers set up multiple scenarios in a cafeteria where diners and cooks could or could not see each other. They found that “when customers and cooks both could see one another, satisfaction went up 17.3%, and service was 13.2% faster. Transparency between customers and providers seems to really improve service.” Similarly, increasing visibility into the connection between performance and pay drives results.

Reason #3 – Millennials.

The Millennial generation, having grown up with greater access to information, has a greater expectation for communication, sharing information, data-driven decisions, and fairness. These employees are more likely to come to comp review meetings and interviews with data in hand. If you’re not prepared to talk about it, they are. That requires a level of understanding of the value of your jobs, and the ability to talk about it, along with some choices that you may or may not have made along the way to getting market data. We sometimes talk about Millennials like their expectations are extreme, but in a lot of ways, Millennials opened the door that everyone walked through, especially when it comes to receiving information about the organization’s priorities and benefiting from fair pay practices.

Reason #4 – People don’t know how they’re paid.

One myth about transparency is that you will have to pay everyone more. A groundbreaking PayScale study of 71,000 employees proves the opposite is generally true. 82% of employees feel ok about low pay, as long as the rationale is explained. But most people don’t actually know if they’re paid fairly. In fact, 80% of employees paid above market believed they were paid at or below. This represents another missed opportunity to communicate organizational commitment to fair pay.
At the same time, only 17% of companies are confident enough in their managers’ ability to have those tough conversations about pay. Your managers are your eyes and ears, especially when it comes to sentiment about pay. The why matters! Managers have to be able to communicate the rationale behind pay decisions, which they can’t do if they either don’t know or you haven’t explained to them yet. We need to increase our ability to appropriately and consistently share information about comp.

Reason #5 – Top-performing companies are already more transparent.

In the PayScale 2016 Compensation Best Practices Report, we learned that 47% of Top-performing companies intend to be transparent about pay, versus just 40% of all companies. Take the time now to get your house in order so that when you are ready to make the decision to get more transparent about your pay practices, you’ll be ready.

Not happy with where you fall? Don’t move quite yet.

Regardless of where you are on the pay transparency spectrum, we encourage you to find the right spot for your organization. That often involves moving to the right. However, it’s not like pulling off a band-aid. There are some incremental steps you can and should take to get moving.

Think about your kitchen cupboards. If your cupboards have doors, you have the freedom to be a bit messy without exposing your mess to your guests. If you suddenly removed those doors, would you be embarrassed? If you don’t do all of the work to ensure your strategy, philosophy and practices are nice and tidy, your business mess will be exposed to your customers, competitors and potentially the media (not all press is good press, my friends). Sometimes doors (or at least curtains) serve a helpful purpose.

Proceed with caution, but don’t be stagnant.

You may start by gaining the support of your executives. To do so, think about what you know about your executives, in terms of the best way to seek their buy-in. Explain what transparency is (and isn’t). Link transparency with results that matter to your particular executives.

Once you’ve decided where you are and where you want to go, develop a concrete plan to figure out how to get you there. Consider who you have in your workforce. Do they even want transparency? If so, what kinds? Are you ready? Are they?
Train your managers. It’s hard as a manager to buy-into something if you don’t understand the rationale behind it. The more you do understand, the easier it is to get behind it and really become a champion for that cause. Involving them in the process is a good step. PayScale Crew makes manager involvement flow smoothly.

**Quick win:**

If you don’t already, consider providing total comp statements to your employees. Finding out about the cost of benefits at the point of COBRA is too late.

Here’s the thing: You may have plenty of excuses as why it doesn’t matter if you fall low on the salary transparency spectrum. However, if you don’t talk about it, you are leaving employees to create their own story about whether or not you are paying them fairly.

**About PayScale**

PayScale powers compensation solutions in the cloud to provide immediate visibility into the right pay for any position. Creator of the world’s largest database of rich salary profiles, PayScale offers modern compensation software and real-time, data driven insights for employees and employers alike. More than 5,000 customers, from small businesses to Fortune 500 companies, use PayScale Benchmark™, PayScale Insight™ and MarketPay. These companies include Dish Network, Getty Images, Skullcandy, Bloomberg BNA and Chipotle.

For more information, please visit: [www.payscale.com](http://www.payscale.com).