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PREPARING FOR PAY TRANSPARENCY

LEVERAGING CHANGE AND SETTING
NEW STANDARDS FOR FAIR PAY

INNECTO

REWARD CONSULTING

The UK's largest independent pay & reward consultancy



| BACKGROUND

The last few years have seen an increased focus on pay transparency, and the need to comply with new legislation. Here we examine the legislative requirements currently laid out, why it is important for businesses to understand and address the issue, and the steps companies can take to enable their leaders and managers to begin or accelerate on that journey.

Legislation and international context

While Pay Transparency legislation is different in each country, ultimately it aims to address and alleviate pay disparity. The trend of global cross-pollination of pay equity laws is a driving force behind companies taking the issue more seriously.

UN - The 17 sustainable development goals adopted by UN member states in 2015 are used by many to underpin their initiatives to reduce inequality, and various collectives have been formed. So far, 27 governments and bodies such as the Organisation for Economic Co-operation and Development (OECD) have signed up to the Equal Pay International Coalition's (EPIC) goal of equal pay, agreeing to increase efforts to close their national gender pay gaps.

US - over the past decade different states have enacted laws to promote Pay Transparency and now more than 26% of the US labor force (44.8 million people) are covered by Pay Transparency laws. While details vary by state, common themes are the disclosure of pay ranges

for job postings; the disclosure of total compensation offered to employees and applicants; and the banning of salary history.

EU - the EU Pay Transparency Directive was passed in June 2023 and comes into force in 2026, affecting companies based in member states or those outside the EU but with operations across Europe. Its principal aim is to ensure equal pay for equal work, or work of equal value, between men and women by giving employees extensive new rights to information about their own pay compared to the average pay of male and female peers, as well as compelling companies to remedy, not just report on, pay gaps. Ultimately, it seeks to eliminate pay discrimination and help close the gender pay gap.

The global consensus on legislation is that through greater transparency, employees should be able to make more informed decisions about job opportunities and feel empowered to negotiate salaries more effectively, reducing wage disparities based on gender, race or other factors.

| PAY TRANSPARENCY ESSENTIALS

Pay Transparency requirements in the EU Directive

1. **Recruitment phase** - when advertising jobs, employers will need to provide information on the pay level or range associated with a specific role. Employers will not be able to ask applicants about their pay history. Every part of the job advertisement and the recruitment process must be gender-neutral, including job titles.
2. **Right to information** - employees will have the right to request information on average pay levels or ranges, broken down by gender for comparable work. Employees will be allowed to share their pay information with peers, without restriction by employees.
3. **Pay setting and application** - employers will need to make this information accessible and easy to understand, alongside the criteria used to determine pay, pay levels and pay progression.
4. **Regular assessment of pay infrastructure** – there will be an onus on employers to assess pay structures and policies periodically to ensure they are free from gender bias and promote equal pay. Any discrepancies or inequalities should be identified and corrected.
5. **Accessibility of Information** - all information provided must be accessible to everyone, for example the format and delivery of the information should consider the specific needs of individuals with disabilities.

Reporting Obligations

1. **Reporting on Gender Pay Gaps for all workers** – every three years, employers with 100-249 workers will need to submit information on any pay gap between female and male workers in their organisation and may make it publicly available. For employers with 250+ workers, this will be an annual requirement.
2. **Remedying unjustified gaps** - Where pay reporting reveals a gender pay gap of at least 5% which is not justifiable on objective gender-neutral factors, employers will have to carry out a pay assessment and address any unjustified gaps.
3. **Penalties for non-compliance** - failure to comply with these reporting requirements may result in penalties and damage to organisational reputation.



Innecto's Verdict:

What does this mean in practice?

While these measures have been known in principle for 18 months, practical questions remain around the regulations. While we wait for countries to transpose and define their requirements, we need more clarity on:

- **'Category of worker'** – this is a new concept in pay equity. How do companies define these categories, and how much flexibility will employers have?
- **Job Evaluation methodology** - reference is made to assessing the value of work using objective criteria, which could represent significant change for companies without a job architecture underpinned by a job evaluation framework. Will the creation of generic levels be sufficient? How will existing job evaluation frameworks stand up?
- **Defining pay** - the concept of 'pay' in the directive includes salary and benefits. This means that it is likely that bonuses, overtime, allowances, health benefits and pensions provided by the employer will be included.



Challenges posed by the EU Pay Transparency Directive

Each European member state has until June 2026 to transpose their own interpretation into practice. While the intention of the directive is to create consistency in standards and approach, the likelihood is for nuance and complication as each country applies it to their own needs.

Countries like France, for example, currently require companies with only 50 employees to report their gender equality index – this is a lower threshold than the EU directive spells out. So far only one jurisdiction in Belgium has transposed the directive, and Sweden has

shared a draft of their proposals, but both have proposed additional measures that go beyond the directive, including a comparison between female or male pay progression for those taking parental leave, compared with those not taking it.

In the UK, while the pay gap between male and female workers has been reducing, there is still more work to be done. While exposure to EU legislation is currently limited to companies with operations in Europe, the global shift is raising expectations among employees, candidates and suppliers, and increasing pressure on UK companies to be open on pay if they want to stay competitive.

Innecto's Verdict: What it means to UK companies

Even if the UK legislative agenda is not as progressive as the EU's, companies still need to be aware, and act. The EU policy is likely to be regarded as the gold standard and be adopted voluntarily by employers outside of the EU, particularly if they have a global footprint and want to take a 'one business' approach.

This year's King's speech made direct reference to employer obligations around Equal Pay for different genders, ethnicities and people with disabilities. Details are scant so far, but it looks like a new Equalities Bill will require employers with 250+ employees to develop, publish and implement action plans to close their gender pay gaps.

Energy for increased transparency is being driven from different directions:

- **Younger employees** - are leading a societal change in expectations around Pay Transparency. They are far more open to the idea of sharing information than their older colleagues.
- **Boards and Remuneration Committees** - are increasingly focused on ESG, questioning impact on the wider employee population and pay equity policies.

A recent Willis Towers Watson survey showed UK companies are starting to ramp up communication on pay transparency:

- **Only 16%** of companies surveyed currently disclose individual pay ranges to their employees — **but 54% plan to in the future**
- **44%** already communicate a public pay equity commitment or plan to do so
- **52%** are planning to or considering sharing a pay transparency commitment
- **60%** are planning or considering communicating pay rate information to external candidates as part of the recruitment process

MAKING CHANGE POSSIBLE

Why companies and bosses should take care

Evidence from surveys shows that greater Pay Transparency in the workplace can pay dividends in several ways:

Retention - A third of workers think their pay is unfair, 40% of whom plan to leave. Conversely, when employees believe their pay is fair, job satisfaction and morale increases, boosting productivity and engagement.

Reputation - Three out of four workers said they would consider looking for a new job if they discovered an unfair gender pay gap at their organisation. Conversely, when an employee feels their pay is fair, they are four times more likely to be fully engaged, and three times more likely to recommend their place of work.

Recruitment - job adverts that include salary information get twice as many clicks and 6 times as many applications as those that do not, boosting the likelihood to attract top talent from UK and abroad.

Barriers to change

Even with such a compelling case for change on the back of legislation and increased social pressure, many companies are still mired in a resistance mindset. The change curve is slow (Figure 1).

Even within companies who say they are willing to make changes, resistance is likely to come from two main groups:

- Older workforce – who have developed careers and pay in a secretive environment
- Established leaders – whose gut instinct may be to avoid the perceived consequences of Pay Transparency particularly why historical anomalies continue to exist.

Barriers to increasing Pay Transparency

Source: Lattice

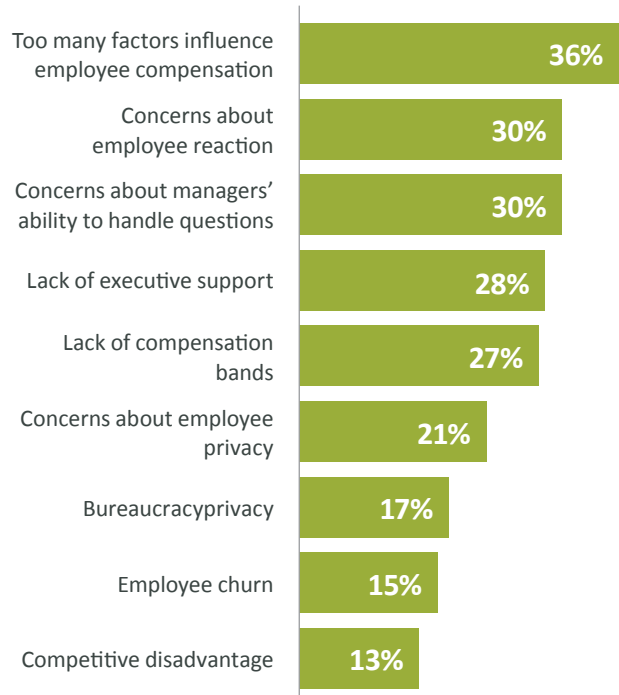
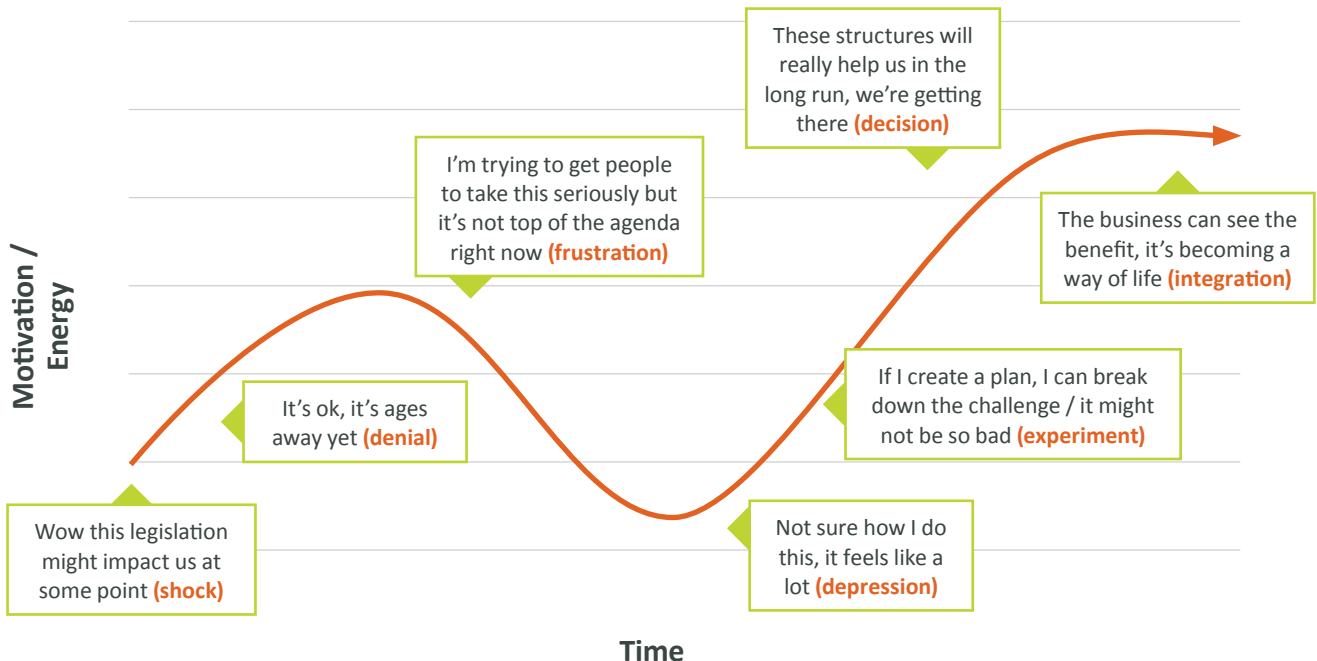


Figure 1: Pay Transparency Change Curve



Models for change

In our experience, every organisation looking for support in this area has a different jump-off point, but broadly speaking companies fall into three camps:

Type A: Transitional support – organisations with all the frameworks in place for equitable policies and practices but need help moving towards complete pay transparency.

Type B: Structural support – organisations with simple job levelling and pay benchmarking insights but without the firm pay structure or policy to make confident data-backed decisions.

Type C: Strategic overhaul – organisations currently operating with no job architecture or pay benchmarking in place, who have more work to do.

Given this range of readiness, while applying common lessons and experiences is useful, starting with the four core foundations that underpin every company's pay structure, policies and practice enables us to create a unique journey for every business.

Foundations for change

1. Educating business leaders

We need to provide clarity and guidance to business leaders around the EU Directive and context around social pressures for change. Start by working with your senior team to define transparency, explore the challenges you face as a business and how your organisation could directly benefit from being more transparent. Demonstrating how it aligns with your core mission and values can help convince leaders that pay transparency makes sense for the business.

2. Scrutinise reward philosophy and practices

HR needs to lead the way in scrutinising how pay decisions are currently made. Asking tough questions will help determine your Pay Transparency action plan, which you can use to articulate the journey and key dates to leaders, managers and even employees. Questions might include:

- What are our guiding principles for how reward should work?
- Could we stand behind and articulate our pay policy and approach if challenged?

- How confident are we in how we assess roles and audit pay?

3. Challenge Job Evaluation methods

The term comparable work is key in the requirements of the EU Directive and will place scrutiny on how roles are assessed and classed as comparable. Again, HR needs to lead the way in asking tough questions:

- Are our roles clear and well defined?
- Do we rely heavily on job titles?
- Do we have robust job evaluation methodology for assessing roles doing the same, similar work or work of equal value?

By going through this strategic piece of work, companies can build a strong foundation on which to grow, plan new organisational design and transition to a position where they feel more ready for openness and transparency.

4. Invest in Managers

Our managers play a crucial role in bridging the gap between the leadership team and employees, and in determining everyday employee experience, buy-in and engagement.

Common steps to help managers are:

Ensure consistency - when different managers enter pay conversations with different reference points, information and language, it can lead to confusion in inconsistency. Give all managers a blanket awareness of pay transparency laws, and of your organisation's approach to compensation: your reward philosophy, how pay decisions are made.

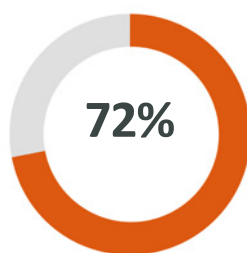
Share data - market data and information around pay ranges can be a powerful tool, especially if they have visual dashboards and to illustrate to employees.

Provide training - repetition breeds confidence: however unpopular, effective role play can give managers the practice they need to handle difficult questions or explain complex structures.

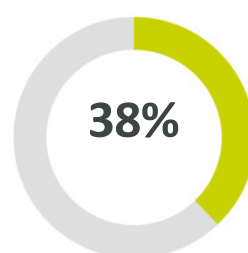
Provide support - where issues need to be addressed or escalated, provide the safety net and back-up support managers need.



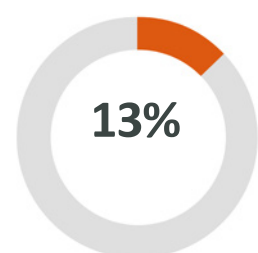
Manager effectiveness concerns are also top of mind for employers



Although managers are the most common channel for communication and information



Only 38% of organisations report being effective at educating managers about this complex topic



Only 13% of companies feel they are effective at educating employees on pay

| RECAP AND NEXT STEPS

Gauging Readiness for Pay Transparency

The aspiration for change and level of actual transparency achievable will vary by organisation.

Innecto has devised a framework to help companies gauge where they stand on the readiness spectrum. Typical survey statements include:

- I know what Pay Transparency is
- I know what Pay Transparency means for me
- I know how my pay is determined
- I know where my salary fits within the pay range and why
- I know what my future earning potential is
- I know where to go to find out information about pay and how pay is managed
- I know how my salary compares to others in my company
- I know how my salary compares to others outside my company
- I have confidence that pay decisions are fair
- I have confidence that my pay is comparable to others in my company
- I have confidence that my pay is comparable to others outside my company
- I have confidence that I can grow my pay in my current role
- I have confidence that if my salary is not comparable it will be addressed
- I have the confidence to explain how salary decisions are made

Moving forward towards change

A company's next steps will depend on its readiness for Pay Transparency, and where it currently is on that journey. Regardless of this, however, the following checklist applies to all.

1. **Educate** - Create awareness among key stakeholders of the EU Pay Transparency directive and other global legislation: how it impacts your organisation, and start to plan accordingly.
2. **Consider data sources** – Scrutinise your current data and identify any new data requirements, for example around pensions and benefits gaps. NB. This may need to come from several sources including payroll, HRIS, insurers, suppliers.
3. **Use data to analyse current practices** – can any differences in eligibility, opportunity and outcomes be explained and defended with gender-neutral reasons? Can you explain objectively why pay or benefits eligibility differs between categories of worker? Could you benefit from a clearer reward strategy or Job Evaluation framework?
4. **Create an Action plan** – decide what needs to be addressed. Document the reasons and lay out a plan of action to reduce pay gaps.
5. **Engage and educate** - Increase education for managers and employees where needed to provide a firm base for additional transparency.
6. **Monitor change** - Track the impact of the changes you make, for example on pay and benefits, recruitment and education - how do they affect pay gaps? Also monitor how other countries are transposing the directive into local legislation, and get ready for reporting.



It is easy to think of 2026 as the finish line for Pay Transparency. In reality, it is just one point on a long journey of continual change management. A journey with bumps in the road, and no obvious end in sight.

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