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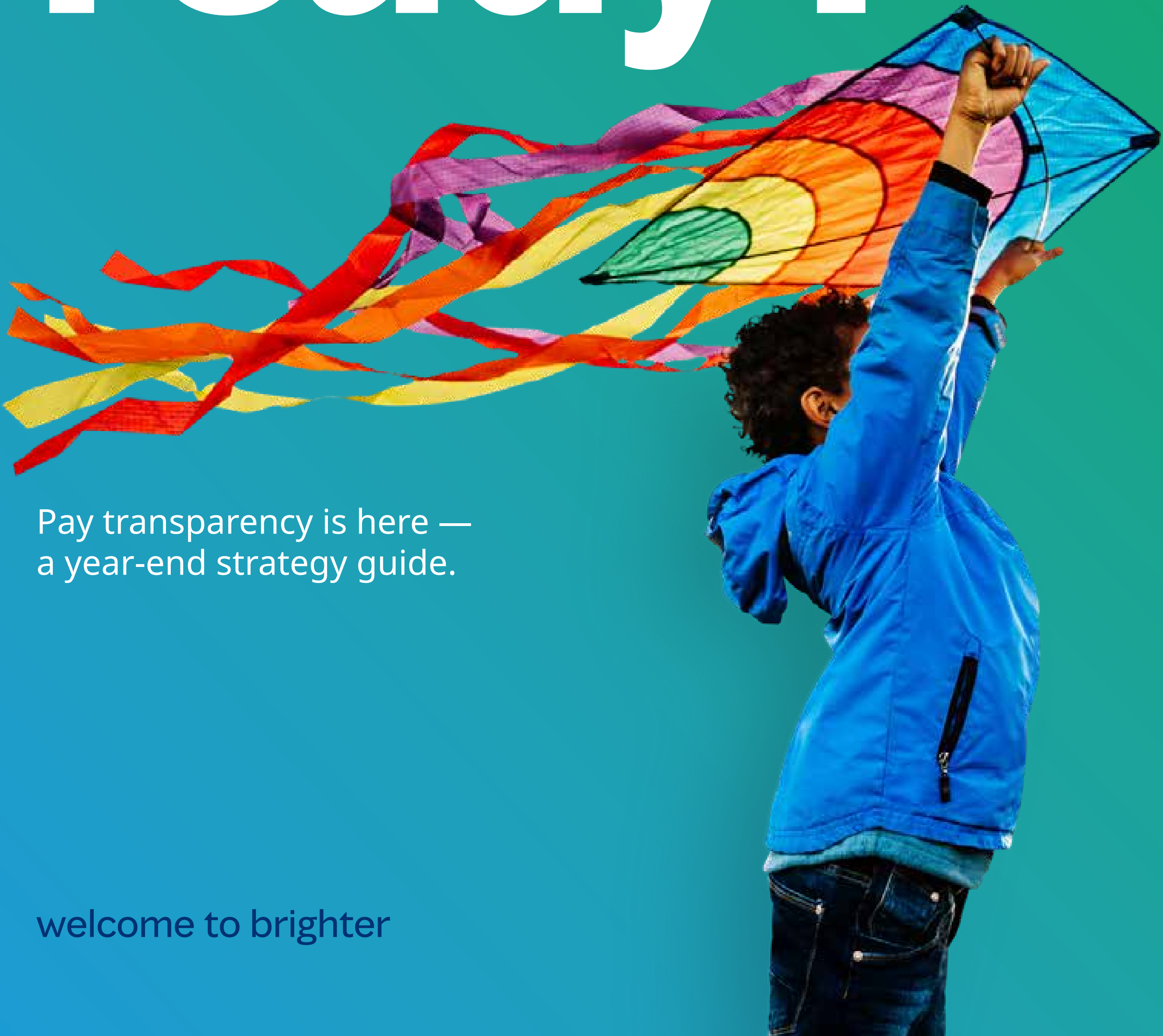
is your organization ready?



Pay transparency is here —
a year-end strategy guide.

welcome to brighter

For most organizations, the idea of making compensation practices public used to be unthinkable — but it's rapidly becoming an uncomfortable reality. Globally, standards around pay transparency are now gaining momentum, and employees themselves are demanding more open, equitable approaches to salary disclosure.

If this strikes fear into your heart, you're not alone. Not every company is ready to pull back the curtain on pay. Many jurisdictions around the world have already announced pay transparency laws in one form or another. But despite this, our research shows that unless they are required to do so, only a fraction of employers are choosing to be transparent on pay.

This reluctance is rarely about compliance; it's about fairness. For better or worse, pay transparency often sheds a harsh light on gaps in equity — raising difficult questions for employers and affecting employee trust.

You can be sure your employees are watching closely. And they're not just questioning their salaries; they also want to know they're being treated fairly in every aspect of your total rewards program, including compensation, bonuses, promotions and development opportunities. Our ***2023 Inside Employees' Minds*** research shows that workers who believe they are paid fairly are twice as likely to say they've been provided with the pay range for their job and that they understand how their compensation was determined. Our ***Global Talent Trends 2024 Study*** found that "thriving employees are 2x more likely to say pay and promotions are fair, equitable and made without bias."

The risks of inaction

The stakes are high. Companies have managed compensation behind closed doors for years, and, too often, the process is riddled with unconscious bias. Some companies will pay a premium for new hires, yet promotion budgets are insufficient for internal candidates to keep pace. In other organizations, managers who advocate more loudly for their teams end up with a bigger piece of a shrinking merit budget or bonus pool. Now, that legacy is about to be aired in the open. When pay transparency is fully implemented, will your employees feel they are being treated fairly? Or will they feel they've been getting the short end of the stick?

Pay transparency is an inevitability, and your employee value proposition and employer brand hang in the balance. The only real question is around what you'll be revealing when it comes time to disclose. If candidates and employees perceive pay disparities as unfair, their trust in the organization could be shattered, leading to decreased morale and higher turnover for existing talent. Legal risks and damage to your recruiting and consumer brand will further compound the issue.

For HR professionals, there's an added layer of concern: personal reputation. Those caught unprepared may be seen as having neglected their responsibilities or, worse, as incompetent. Perhaps the biggest looming threat for most is not knowing what they're up against. Until you understand the true state of your organization's pay practices, you can't get a comprehensive picture of the risk. And the longer you wait to address it, the more challenging it will be to fix those problems when they come to light.

Strategies for getting your house in order

The best place to begin is by conducting a thorough pay equity analysis. After that, you can work on closing the gaps it reveals. Don't just look at base salaries. Conduct audits to ensure your bonus pool allocation, salary increases, and promotion decisions are also fair and equitable. And consider a variety of factors, such as gender, ethnicity and age.

This journey won't end with an audit — or even by addressing pay gaps. Pay equity is just the baseline. It doesn't address where pay should be based on an individual's tenure and experience, multiyear performance, skills, etc. Companies have philosophies about how employees should be paid based on these criteria, but they aren't being true to their own stated ideals. So when ranges become transparent, they can't explain it. The real vulnerability here is often the people involved and the inefficient processes in place. Many of the behaviours that created inequity are embedded in annual review cycles — through the decisions people make. Each year, when these decisions come up, they threaten to undo the progress the company has made.

Educate managers and set guardrails around discretionary decision-making. Use checks, balances, and scrutiny of starting salaries for new hires, pay raises, and bonus allocations — before they're implemented. Reconsider your bonus pool allocation methods to avoid perpetuating bias or inequity — especially if these methods allow for discretionary adjustments. Career and promotion decisions must undergo similar reviews for fairness.

Your annual opportunity for change

The good news is that you're probably entering the best time of year to start fixing this. The year-end is a valuable opportunity to close gaps, demonstrate your organization's commitment to pay fairness and move the needle toward a more equitable culture.

Note that we said "move the needle" and not "solve it all immediately." Most companies that are ready for pay transparency don't fix their pay practices all at once. It takes a few years of changing processes and mindsets. Now is the time to begin making positive progress — or at least stop making negative progress.

Inaction today could set you back another year, so you need to act with urgency, responsibility and foresight. This will be your best opportunity all year to put your organization on the right side of pay fairness. The clock is ticking. Are you ready?

To learn more about how Mercer can help you navigate your journey toward pay fairness and transparency, please contact us for expert guidance and solutions