The Ultimate Guide to *Pay Transparency.*

How to build an effective, future-proof compensation program

Introduction.

Compensation has always been a major factor in employment decisions for professionals. It often makes or breaks a job offer and is the reason an employee stays or leaves an organization. In fact, according to our survey of 1,089 tech professionals in partnership with Brandata, over 70 percent of job seekers say salary is very or extremely important when considering a new job offer and 27 percent of employees would stay at their current job, even if a more lucrative offer arose, if they were fairly compensated.

Historically, compensation has been a taboo subject, but in recent years, that's changed drastically. Today, 44 percent of employees state they openly discuss their salary with coworkers, and employers are scrambling to catch up.

Organizations must pivot from gatekeeping compensation decisions to transparently giving employees and job seekers alike a clearer view of compensation. This is where pay transparency comes into play.

Pay transparency is pacing toward becoming an expectation. And employers are starting to recognize this: A survey done by PayScale shows 63 percent of companies have a plan in place or are already working toward pay equity.

While organizations recognize the value and importance of pay transparency, it's a daunting task that many shy away from. Its taboo history creates a lot of fear and uncertainty on how to shift compensation conversations to be more open.

This guide will ease these reservations and give your organization a clear path on how to create an effective pay transparency program within your organization.

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Is Your Organization Ready For Pay Transparency?

The variance in what pay transparency is can be quite drastic from organization to organization. Some companies may need pay transparency because of recent legislation requirements, others may implement changes due to employee requests. There are many scenarios for why pay transparency is a need and each of them come with different goals and priorities.

SECTION 1

"Transparency is part of our mission, so we wanted to be an early adopter of pay transparency, before it was a legal requirement. We see the value in pay transparency as a tool to set expectations internally and externally, maintain alignment within our company, save time in hiring processes, and remain accountable for pay equity - with a particular focus on underrepresented groups. For us, pay transparency is about sharing salary ranges for all locations, roles, and levels - not only when people ask, but proactively and publicly."

-Nate Silver, Head of People & Culture, The Org

Before starting any work toward pay transparency, you must understand what's driving this need. Ask yourself:

- Why is pay transparency a priority right now?
- Who is pushing for this change? Employees, candidates, leaders, legislation, something else?
- How does your organization define pay transparency?

The responses to these questions will be foundational in understanding when to begin building pay transparency within your organization and give you a sense of direction to follow throughout the process. Remember, there are no wrong answers to these questions and there isn't a one-size fits all approach to pay transparency. Listen to those most vital to your organization and take actions accordingly.
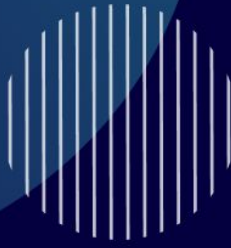
5 Steps to Build Pay Transparency.

When your organization is ready to begin, follow the five steps below to build an effective and future-proof pay transparency program. Keep in mind that when you're going through these steps, every organization will approach pay transparency at different levels of investments and with different priorities. Lean into adjusting the approach to these steps based on your organization's needs.

Step #1: Establish a Compensation Philosophy

Your compensation philosophy is the foundation for all decisions made by your organization on compensation and pay transparency. When discussing future compensation and pay structure strategies, as suggested in the following steps, you should come back to your compensation philosophy to develop a clear path for the necessary decisions that need to be made.

Getting Started

Team members involved: Your people team, including compensation specialists, finance and your CEO should all be involved in developing your compensation philosophy.

Goal of this step: The goal of a compensation philosophy is to align on your organization's definition of compensation, how you want your organization to be thought of when it comes to compensation and how transparent you will be around compensation

Compensation Philosophy Factors and Influences

There are many elements to your compensation philosophy that must be discussed and agreed upon before moving forward.

Compensation definition: To develop a compensation philosophy, you'll first need to define what compensation is for your organization. Is it just an employee's salary? Are total rewards factored into a person's salary? If so, what perks & benefits are monetized and how? Tools, like Pave, can help you build a compensation statement that quantifies your total rewards and salary offerings if that's what makes the most sense for your organization.

Defining compensation is imperative for continued alignment throughout building a pay transparency program but also for how you'll align with employees and candidates alike on what compensation means to you.

Compensation ranges: Does your organization want to compensate employees at or above market rate? Does this decision change by department and the competitiveness of those roles? Or will it be the same for all roles?

Your finance and people team, including compensation specialists, should drive this conversation and navigate the pros and cons of this decision-making process.

Market compensation research: What data sources will you use to determine the market rate for all roles within your organization? Your people team will know best as to what reputable sources will be the best options for this research. Then, present these choices to your finance team and CEO for final sign off.

Level of transparency: You need to get crystal clear on how transparent you want to be about compensation within your organization. Will all employees be able to see the salary ranges for all roles, just their role, their role and those above them as a growth path, etc.? Will candidates and folks outside of your organization be able to see salary ranges? If so, will it be just for the role they are interested in, for all positions within their field or for all roles within the entire organization?

When answering these questions, think back to what brought about the need for pay transparency. For example, was it mostly candidates driving it? If so, you might want to factor that into the level of transparency you have with candidates specifically.

Step #2: Create Job Leveling or Level Mapping Outline

Job leveling is another key element of building an effective pay transparency program. It's imperative to understand the different skill sets and experiences required within each role at an organization. It also helps create equity among similarly leveled roles across departments within an organization, like individual contributors, managers and directors.

Level mapping can be done simultaneously to step one of establishing a compensation philosophy since different team members are involved in this project. Alternatively, it can be done before step one or after as step two, as we've outlined in this guide.

What Is Job Leveling or Level Mapping?

As defined by the [Society for Human Resource Management (SHRM),](#) "job leveling is a systemic method of objectively and accurately assigning value to individual positions within an organization. It is a process that defines and evaluates the knowledge and skills that are necessary to perform the job and establishes the job's duties, responsibilities, tasks and level of authority within the organization's job hierarchy."

Getting Started

Team members involved: Your leadership team and managers will play a critical role in this step as will members of your people team. Your CEO should also have final sign off on this step.

Goal of this step: The goal of level mapping is to determine the levels of each role within the company, the future levels you'll need and where each employee stands within those levels today.

First, you must determine the general levels and definitions of each level your organization will use. There are a ton of structures out there, like Radford, for example, that will make this process much easier for your company. No matter what structure you choose, there should be levels that range from beginner to expert. Also, the general level methodology used should be consistent no matter what the role does. At this stage, it's not meant to be specific to each role's individual responsibilities but rather at what level of expertise the person has mastered.

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Once you've outlined the general levels and the mastery level for each. It's time for your people team to work closely with leaders and managers to determine what these levels look like for every role within the company. Why? What someone at the beginner level does for a marketing role vs. a software engineering role is very different.

These more specific definitions should align very closely with the overall definitions of the general structure of mastery. For example, company-wide a level one employee should be able to tackle the basics of their role but require detailed instructions for their work. A marketing leader may then say a Content Marketer at a level one should be able to write blog posts on their own but require assistance in coming up with the right topic and editing the piece before it is published.

This stage should also include discussions with leaders and managers on future roles they might need on their team and what those tasks will look like at each level. This will help future-proof your level mapping for potential hires and growth and development within your teams today.

Finally, HR, managers and leaders should work closely to determine where each employee sits within these levels based on their current performance and responsibilities. This will come into play heavily once we get into the next steps of building a pay transparency program.

Step #3: Build Salary Bands

Building salary bands is the most important step of a pay transparency program. It's the root of what you'll be sharing with candidates and employees alike.

Getting Started

Team members involved: All of the team members from previous steps will be involved in this one, including your people team, compensation specialists, finance, leaders, managers and CEO. They all play a critical role in ensuring this step remains aligned with your overall compensation philosophy and provides equity among all existing employees.

Goal of this step: When developing salary bands, the goal is to at least create them for every role that exists today. Depending on the level of transparency your organization has decided to move forward with, we'd also recommend building salary bands for roles you plan to hire for in the future as well as the roles that your existing employees could grow and develop into.

Salary bands should be built with your compensation philosophy as the guiding truth. People teams and compensation specialists will start by mapping out salary bands for every current role within the organization using the market salary insights data source you aligned on during the compensation philosophy step. Keep in mind during this phase whether your organization wants to be at market rate, above market or whatever you decided in your compensation philosophy. The salary bands should be built department by department and role by role.

Once complete, your finance team needs to provide input for alignment and offer feedback, and your people team and compensation specialists will adjust the bands as needed.

"As a product leader in tech, I have a front row seat to how competitive this space is for talented employees. In order to attract and retain high performers, it is critical to be transparent and compensate fairly. In a borderless economy, the talent you need may be located all around the world. That's why it's an important time to prepare your company to address fair compensation practices and ensure it's a positive experience for employees regardless of where they reside."

- Liz Li, Chief Product Officer, Velocity Global

After finance has approved your salary bands, it's now time for your leaders and managers to review and provide feedback. Kick off this stage by asking them questions like:

- Based on your knowledge and expertise of your given field, do these ranges feel appropriate? Remember to also provide them with your compensation philosophy so they know if your organization wants to be at or above market rate.
- What would you change about these ranges and why? Ideally this question is answered specifically for any individual role's salary band they have feedback on.
- What adjustments would you make to these salary bands and why? Again, this question is best answered specifically for each individual role's salary band.

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Your people team and compensation specialists should always refer to your compensation philosophy and the data sources you agreed upon before making any changes based on feedback.

Next, your people team and compensation specialists need to analyze the salary of each current employee to make sure they are:

1. Falling within the final salary band for their position
2. Are falling in the right place based on their level mapping stage

Analyzing Where Employees Currently Fall Within a Salary Band

Here's how to determine if an employee is falling where they should within your salary band:

First, calculate the midpoint of the salary band you are assessing. To do that, you need to take the minimum salary number and add it to the maximum salary number and then divide that total by two.

Once you have your midpoint, divide that number by the employee's current salary. This should give you a number totalling around one. Typically, the employee's salary is in a good place if you get a number below 1. However, if you get a number below 0.6, you're likely underpaying the employee based on the salary band, and an adjustment should be made. If you're looking to pay competitively and above market rate, ideally you are keeping the calculation between 0.9 and 1.1. But, again, this will be dependent on your compensation philosophy.

If the employee doesn't fall within the range, you'll need to do a market adjustment for them. When you do this, it is up to you when you make the adjustment. However, we recommend doing it at the time you roll out your pay transparency program, which we'll discuss more in the training and communications section to come.

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Also, if an employee is above the top number of their salary range you'll need to decide how that will be handled. Likely, you won't want to reduce their salary, but you should consider being transparent with them that they are above the market rate and are likely to be at their current salary until they are promoted into the next role, or maybe it's a signal that their title needs to be adjusted because they are ready for that next role.

You'll also want to think about the roles that aren't in place right now but could be roles that your current employees grow into, or you'll need to hire for soon. Having those salary bands ready to go will make hiring and promotions quicker in the future. The process for developing these bands should be similar in that your people and compensation team work with talent acquisition, hiring managers and finance to determine the salary bands.

Other Pay Transparency Considerations.

As we've mentioned before, every organization is going to have slightly different priorities and goals for their pay transparency program. The following questions will help you take the steps we've outlined one step deeper to explore what works best for your organization:

- How will salary bands be shared with your employees based on the level of visibility decision you made earlier. Will you house the information in your Human Resources System (HRS), intranet or elsewhere?

- Are you sharing your salary bands in job descriptions? You might want to pull in your legal team to assist here to ensure all is rolled out properly according to the current state and local regulations.

- Are you sharing your compensation philosophy publicly? If so, where? And how will it be managed for updates and other necessary changes over time?

Step #4: Pay Transparency Rollout, Training and Communications

How you roll out your pay transparency program and train your workforce on these efforts is a critical step. It can truly make or break the success of your program. Communicating all your decisions and changes to your company in a clear and understandable way is key for your program to be effective and for you to gain buy-in.

Getting Started

Team members involved: HR and people teams, along with managers and leaders should be involved in this step.

Goal of this step: Your goal is to communicate with the entire organization what your pay transparency program is and how it will affect everyone. You also want to ensure your leaders and managers are properly trained on the new program and how to respond to compensation and program-related questions when they arise.

Keep reading for a recommended path to roll out your pay transparency program company-wide, but again, do whatever makes the most sense for your organization.

Step One: Train managers and leaders

Training for managers and leaders should be done separately from employees, so they have the opportunity to fully understand your compensation philosophy, how level mapping works, the salary bands you outlined and how compensation decisions are handled. Being equipped with this knowledge will allow them to better respond to employees when the time comes. Provide leadership with an FAQ guide so they can answer most questions coming from employees on your behalf with consistency throughout the leadership team.

Step Two: Plan a company-wide rollout

When developing your communications and determining the timing of your company-wide roll out, keep in mind: What is the level of transparency you decided upon? How detailed will you be in sharing how you came to the decisions you made? Will any employees receive a salary increase due to the rollout and where they're falling in their current salary band?

From there, start to determine the key points you need your workforce to know and what changes you must communicate that will affect their compensation moving forward. Below is a general outline of what you should be covering in this training. Be sure to modify it as needed based on your organization's goals and priorities outlined above.

1. Share the definition of compensation for your organization. Does it include total rewards? Just salary? Explain this first so employee's can understand why you made the decisions you did.

2. Present your compensation philosophy and any key things the employees should know about it. This can include what market data resource you're using to determine salary bands, if your organization plans to pay at or above market and whatever else you think would be beneficial for them to know.

3. Introduce your level mapping structure and what each level means from a generic perspective. Managers and leaders can then follow-up with employees individually on where they fall and why. These conversations are ideally tied into your employee development conversations. You might get the most pushback from employees here, so ensure you've trained your managers thoroughly to have these conversations.

4. Finally discuss your salary bands and how they were calculated. Managers and leaders should follow-up with employees individually to highlight where they fall within the band and why. Use this as a growth and development conversation of how one can move higher up in the band and eventually into the next role.

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When an organization prioritizes pay transparency and communicates clearly, data shows it can increase the morale and productivity of employees. Ultimately, being transparent about salaries is one way to build trust. In turn, if a company shrouds salary and benefits in secrecy, it erodes trust. Employees might start questioning if they're being compensated unfairly even if that's not the case. That can be a major stressor taking valuable time and mindshare away from their work or, in the worst case, result in key talent leaving for greener pastures when it comes to compensation."

Liz Li
Chief Product Officer,
Velocity Global

Step #5: Managing Pay Transparency Long-Term

Pay transparency will look different for every organization. Some may decide to only share this information internally for current employees and decide at a later date to include the information in job descriptions or vice versa. How you manage and evolve the program over time is up to your organization. However, we've laid out a few considerations below to evolve your pay transparency program over time. Remember, this is not a set it and forget it scenario. Compensation is constantly changing which means your organization needs to remain diligent to ensure you keep up.

Getting Started

Team members involved: Different people will be involved in this step based on what needs to be changed or adjusted. Monitoring and adjusting over time will most frequently include your people team, and compensation specialists, with leadership, managers, finance and your CEO being involved as needed.

Goal of this step: The goal of managing pay transparency long-term is to ensure you're continually assessing and adjusting as needed to meet the needs of and align with the organization, employees, leadership and market expectations.

SECTION 2

It's important to remember that a pay transparency program is not a set and forget it—it's not static. It needs to be consistently revisited and readjusted as the market and organization's needs change. Here is some advice on how to do this.

First, you should revisit your salary bands and where employees fall within those ranges at least annually. Compensation ranges can change relatively quickly, especially for highly competitive roles. Going back to your data source(s) and updating these ranges as needed will be key. Any time you make changes, you need to communicate the changes with the employees that are affected.

Also, listening to the market can indicate a change is needed more frequently. For example, if you are hiring for a role and have the salary range in the job description but the hiring manager or recruiter is hearing in conversations that candidates are expecting a salary out of that range, you should go back to your data source to ensure your salary band is correct.

Another way to evolve this program is to get employee feedback. After rolling out your program and giving your workforce time to digest all of the information, ask them questions like:

- What could be improved upon?
- What are we missing?
- Where should we invest further in pay transparency?
- Do you feel more confident and trustworthy in our organization?
- Do you feel you are compensated more fairly?
- Where is more education needed?

Answers to these questions can be an indicator of where you should invest in the future, where more training is needed and where you need to go back and re-evaluate your decisions. And, if you have invested in pay transparency externally, try surveying your ideal candidates as well, for their feedback on what they are seeing.

Conclusion

Given that pay transparency is pacing toward becoming an expectation with employees and candidates alike, it's necessary for employers to get on board and begin discussing and developing their own pay transparency plan. Fortunately, with the right level of consideration and by using the step-by-step guide above, it's possible for your team to build a valuable pay transparency program that aligns with your organization and offers a viable solution for the long-term. An effective program means improving your hiring and retention efforts, as well as the overall morale and wellbeing of your employees.

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