

HR Insights

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Pay Transparency

Pay transparency is when an employer openly communicates pay-related information through established practices to current or prospective employees. Employers can provide this information through various channels, such as online job sites, job postings or during an interview. As a result of changing labor markets, more and more employees are demanding pay transparency. Further, some jurisdictions are now requiring employers to share pay information, meaning that this trend is impacting more and more employers.

This article discusses rules surrounding pay transparency across the country and workers' growing demand for it. This article also explains employer advantages and strategies to implement pay transparency practices in an organization.

Pay Transparency Across the Nation

As demands for pay transparency increase, some states have passed legislation requiring organizations to be transparent. In recent years, California, Colorado, Connecticut, Maryland, Nevada, Rhode Island and Washington have all passed pay transparency laws. Some cities, including New York City, Jersey City and Cincinnati, have also passed such laws.

Employers should be aware that pay transparency laws vary depending on the jurisdiction. Some jurisdictions only require employers to provide pay ranges if the candidate requests it, while others require employers to disclose it upfront, as evidenced by the recent California law requiring employers with 15 or more employees to include pay scale information in all job postings, including job postings on third-party sites, starting Jan. 1, 2023.

Employee Demand for Pay Transparency

The tight labor market has led employees to make new demands, such as remote working arrangements, enhanced benefits and more—among them is pay transparency. Pay-related websites, such as Glassdoor, have helped normalize pay transparency as an integral part of an individual's employment search and facilitate employee-driven conversations about pay. Employees value transparency because it holds employers accountable for providing similar wages for similar roles, builds trust and helps employees easily see if they are being compensated fairly.

Visier's 2022 Pay Transparency Pulse Report found the most important factor potential employees consider when deciding whether to apply for a job is their estimated compensation. Further, 11% of candidates will not apply or interview for a role without knowing the salary band, and 50% have completely abandoned an application or interview process because the pay did not meet their expectations once the employer revealed it. Salary information is important to job applicants because they want fair pay—competitive with the marketplace and in line with what they contributed—and to avoid applying and interviewing for jobs they ultimately won't accept due to insufficient pay. Applicants also see pay transparency as a way to develop trust with their potential employer at the outset of the employment relationship.



Advantages for Employers

It's becoming increasingly clear that providing pay transparency is not a temporary trend. Not only are more states and localities implementing pay transparency laws each year, but pay transparency is also more important to younger workers. The way younger generations and entry-level employees think about pay is different from how employers have historically treated compensation conversations and practices. Employers may need to evolve by embracing pay transparency as more millennials and members of Generation Z enter the workforce to make themselves attractive to these workers.

While pay transparency may sound like another average consideration for employers to worry about, it's a great opportunity for them to cultivate trust with their employees. Even if employers are not compensating the employee more than their competitors, simply taking the time to discuss pay with employees and candidates can help build trust. This small change has the potential to help employers to build and strengthen employee relationships.

Employers need to consider the applicable rules and regulations related to pay transparency in their jurisdiction. However, even if an employer is in a jurisdiction that may not require pay transparency, it may be beneficial to provide pay-related information since employees and applicants are more frequently demanding it and, thus, it's attractive. Because employees today often demand higher pay, employers are likely to appear more favorable to employees by providing pay transparency. Employees want to see that they are being paid what they deserve, and they may be willing to leave their current roles to find what they want, regardless of whether or not the law requires employers to publish this information. To meet employee desires, employers may consider implementing practices such as publishing pay scales for their open positions or hosting informational training sessions on pay-related topics.

Additionally, organizations that provide pay transparency information tend to receive more applicants. By disclosing salary information and ranges to applicants, employers can also save time and money in recruiting by ensuring candidates don't reject job offers due to insufficient pay. Even when not required, providing this information can help

organizations stay ahead of pay disclosure mandates, which is becoming increasingly important as they hire more remote employees.

Implementing pay transparency practices is not without financial and legal risks. Many employers are hesitant to enact such measures because they are concerned about how existing employees may react, as pay transparency can reveal unintended pay gaps and trigger more questions from current workers. In addition, providing this information can potentially leave organizations vulnerable to pay equity lawsuits. As such, organizations should carefully weigh the benefits and disadvantages of implementing pay transparency practices.

Takeaway

Pay transparency is rising on the list of employees' demands, and employers should consider preparing to provide it. There are different ways employers can increase their pay transparency, and doing so may help improve attraction. Further, some jurisdictions already require pay transparency, so employers should confer with local legal counsel to ensure compliance with applicable laws.

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