

Managing Pay Transparency

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The Chartered Institute of Personnel and Development (CIPD), in its 2017 Reward Management Survey, stated that pay was becoming more transparent in most organisations. The study showed that 69% of the 715 organisations surveyed were open about pay levels, with 31% favouring 'great' transparency in form of written policies. Similarly, in the 2016/17 HR/Reward Practices Survey conducted by KPMG Nigeria, 53% of employees believed that their companies' performance management systems were more than fair.

Pay Transparency is a controversial concept with varying definitions across different bodies and organisations. Some define it using the literal word "transparency" and therefore interpret it as the act of revealing employee compensation information to other employees. Others interpret it as transparency of pay processes i.e. the process of being clear and open about compensation decisions, and providing all required information to understand these decisions. With the advent of technology and social media where people discuss and share all aspects of their lives, it is inevitable people will begin to seek platforms to share compensation information. It is important to note that there is no perfect level of pay transparency. As with other organisational decisions, it should

be dependent on the organisational culture, brand strategy, goals, organisational philosophy, amongst other factors.

This increased openness, particularly amongst public service companies and large organisations, may be driven by the impact of recent legislative measures, such as the UK gender pay gap reporting and agitations for greater transparency on executive pay. In Nigeria, the Central Bank of Nigeria (CBN), Securities and Exchange Commission (SEC) and Financial Reporting Council of Nigeria are championing the cause for transparency and disclosure for Executives' pay information.

This article explores the argument for pay transparency, what should be communicated at the minimum, key drivers involved in managing pay transparency and how employers can use pay transparency as a tool to drive business growth and profitability.

The Argument for Pay Transparency

- **Accountability** – Pay transparency leads to discipline in reward systems, especially amongst executive management. One of the key lessons from the global financial meltdown of 2008-2009 is the need for companies to put in place effective mechanisms for curtailing excessive risk taking and pursuit of short-term results

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at the expense of long-term value creation. To this end, companies are mandated to disclose their executive remuneration in annual reports, thereby promoting accountability and keeping executives' pay under continuous public scrutiny. Institutional investors in the developed countries always pay particular attention to these remuneration reports.

- **Trust** – This is one of the most important singular arguments for pay transparency. Pay transparency helps to breed trust, which in turn improves team work significantly. Also, this will help alleviate any gossip or speculations regarding pay policies.

At tech start-up Buffer, for instance, all wages are available in a spreadsheet on the Company's website. Even as the company scaled up from 10 employees to 65, they retained this transparency, coming up with a simple formula to ensure that staff understand why discrepancies exist.

- **Pay Equity** - Employees should receive proportionally fair treatment in terms of pay based on their contribution and investment in the employment relationship and on clearly-defined expectations as communicated to the employees from time to time. Pay Transparency can help reduce discrimination and unfairness based on favouritism and personal relationship.
- **Performance Management** – When employees understand how their pay plans are developed and how salary budgets are distributed across the organisation, they in turn understand their value-add to the organisation and how their individual contributions impact the bottom line. This will spur them to improve their performance in order to receive incentive pay and promotion to the next level.
- **Engagement & Productivity** – When employees realise they can earn more than they are currently earning, it makes them work harder invariably leading to an increase in career engagement thereby closing any identified skill gaps.

What Should Be Communicated

There is no one-size-fits-all approach with respect to the level of pay transparency organisations should adopt. However, we have provided below a list of pay-related items that should be communicated:

- **HR Strategy** - The plans, programmes and intentions to develop the human capability of an organization to meet the future competitive challenges in order to generate superior economic value.
- **Reward Strategy** - The distinct value proposition for current and prospective employees that attracts, motivates and retains employees required to meet the organization's strategy.
- **Total Rewards Strategy** – The mix of total rewards elements (compensation, benefits, work-life, performance and recognition, development and career opportunities) for each category of employees. Employees may be classified based on demographics, working environment, social status (income bracket), culture, etc.
- **Company's Pay Philosophy** - An organisation's pay philosophy is a collection of its beliefs about its business, people, performance results and how to reward those that help to achieve it. It also reflects the company's desired position with respect to competitive pay at a certain point in time.

- **Variable Pay** – nature, eligibility, objectives, targets and expected payout, vesting, risks and tax implications.
- **Legally Required Communication** - Information legally required to be communicated to employees.
- **Comparator Group** – Employees should know who their companies' comparators are with respect to compensation
- **Survey Providers** – what compensation data sources does the Company use in evaluating the market?

Key Drivers

Key Drivers Involved in Managing Pay Transparency are:

- ✓ **Executives** – Set the tone, communicate programs at high levels. Also, as the pace-setter, the executives have to lead by example. When they learn to be transparent with pay, managers and personnel are likely to do the same.
- ✓ **Culture** – Refers to shared beliefs, values and assumptions held by members of an organisation. The culture should create an enabling environment for managing pay transparency.
- ✓ **Managers** – It is essential to run communication campaigns by managers to check for obstacles. Also, managers are vital in communicating with employees.
- ✓ **Human Resources** – Coordinates the implementation of pay transparency policies. They are also required to conduct training programs on these policies.

Bridging the Gap

Management, therefore, needs to assess the level of pay transparency within its organization. Such information can be obtained through employee engagement surveys, interviews, anonymous feedback etc. Once the results show that employees consider the current pay policy as not transparent, Management may seek to explore some or all of the following initiatives to bridge the gap:

- ✓ **Develop a Plan** – Where a company has identified its desired level of transparency, a plan should be put in place to move to that level. These plans might entail updating compensation plans, identifying strategic communication processes, etc.
- ✓ **Train Management** – Management must understand the rationale behind every policy. Hence, information such as business strategy, reason for pay transparency and tools for success should be shared amongst managers.
- ✓ **Prepare compensation policies** – Provide comprehensive statements including compensation, benefits, work-life balance initiatives, performance and recognition policies, development & career opportunities as well as other associated cost-to-company expenditures.

Conclusion

The call to action is for companies to ensure they equip employees with the right amount of information on pay policies and how these decisions will impact their careers. Companies will need to have a good understanding of their employees' needs to make this determination. One thing is clear: managing pay transparency is critical to breeding trust, engagement and improved business results.

For further enquiries on the above and information on how KPMG can assist you, please contact:

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