



# HR's Guide to Compensation Transparency

# Introduction

The call for pay transparency has never been louder or more urgent. With new laws brought into force across the globe, from New York to California and [across the EU](#), the clock is ticking for organizations to implement and report on their pay transparency — internally and publicly.

Failing to comply could yield more than a legal slap on the wrist. If employees don't see your organization taking action to foster greater transparency on pay, they're more than willing to vote with their feet.

*“When implemented thoughtfully, compensation transparency plugs directly into business results.”*

By this point, most organizations know that transparency is core to retaining top-performing employees. They also know that a fair, equitable total rewards strategy provides an unshakeable foundation for an organization where everyone feels empowered to work at their best. But they often *don't* know exactly how to implement it or what level of transparency will work best for their specific company.

When implemented thoughtfully, compensation transparency plugs directly into business results. From Lattice's [2023 State of People Strategy Report](#), we know that 37% of the highest-performing HR teams invest in compensation transparency, compared to just 24% of lower-performing HR teams. [Research also ties transparency to job satisfaction](#) and additional [studies have found that it increases trust](#).

Getting pay transparency right isn't necessarily about “telling all” — because sharing salary information may not be appropriate for your company culture. Instead, it's about creating the processes and communication strategies that *show* your employees how their pay matches their contributions.

In this ebook, we'll explain what pay transparency *actually* means and provide you with four actionable steps to build an approach that works for your organization.

# Defining Transparency

Compensation transparency can be a tricky topic to pin down. That's because when we hear the word "transparency," it seems to suggest an all-or-nothing approach to disclosing employees' salaries and other rewards.

It's little wonder that neither organizations nor employees have a strong understanding of compensation transparency. A [2022 study found that employees have an inconsistent understanding of pay transparency](#), with some respondents reporting that they thought it related to being paid on time.

**In reality, compensation transparency is less about what we get paid and more about how and why.**

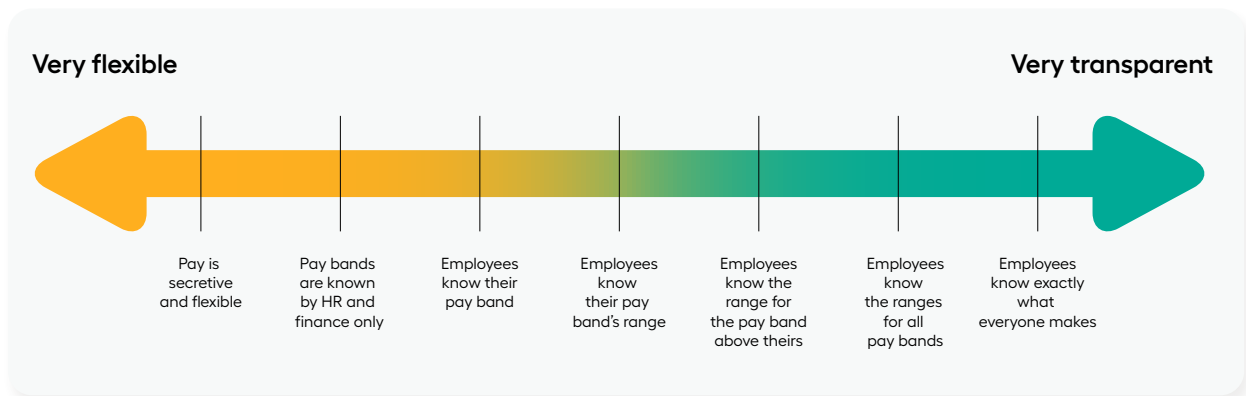
It refers to the degree to which companies are open about how they calculate, communicate, and maintain consistency around employee pay. Transparency covers everything from how salaries are determined to what your bonus structures are — and how much employees know about these processes.

Compensation transparency is linked to several benefits. It may empower organizations to:

- **Create fairness and equity:** One [2021 study published by the Oxford University Press](#) found that transparency and faith in the business are linked. If employees can discuss pay and the compensation process with their peers at work, they're more likely to have a greater perception of fairness and trust toward their employer.
- **Improve talent competitiveness:** Pay transparency is top of mind for today's job seekers — and in some cases, a perceived lack of transparency will put people off from applying entirely. According to [2021 data from recruitment company Reed](#), jobs with transparent salary ranges attracted 27% more applications on average.
- **Address gender pay gaps:** A [2020 study published by the University of Warwick](#) found that pay transparency increases women's chances of being hired above the median wage by 5%. Meanwhile, [another study reported that the gender pay gap fell by 45% in organizations with transparent pay practices](#). The study included over 100,000 employees in academic institutions.
- **Drive performance:** Financial incentives, like commissions and bonuses, can be a powerful motivator to drive employee performance. However, [2020 research on the psychology of pay-for-performance](#) found this works best when organizations couple it with complementary practices, including autonomy, feedback, and meaningful work.

In practice, compensation transparency looks different in every organization. While some organizations, like [Buffer](#), share full salary information internally and externally, total transparency is unlikely to work for all organizations. This is why it's best to think of compensation transparency as a spectrum rather than an outcome.

## Compensation Transparency Spectrum



*Pay transparency is best described as a spectrum, not a one-size-fits-all solution.*

As mentioned, focusing on monetary value only gets us halfway to compensation transparency. It's also important to factor in your level of transparency around how you've arrived at your pay processes and help employees connect their contributions and growth to their pay.

Your organization's level of compensation transparency will depend on your [compensation philosophy](#). Your compensation philosophy is a mission statement that outlines your key goals, beliefs, and priorities around employee compensation. It goes hand-in-hand with your organization's culture and values and gives you a direction of travel to define your processes and infrastructure around pay.

For example, it's only natural to want to pay people fairly. But what's "fair" for one organization will look different to another. Paying people fairly could mean paying everyone the same no matter their location — or it could mean that your focus is increasing fairness by rebalancing racial and gender pay gaps.

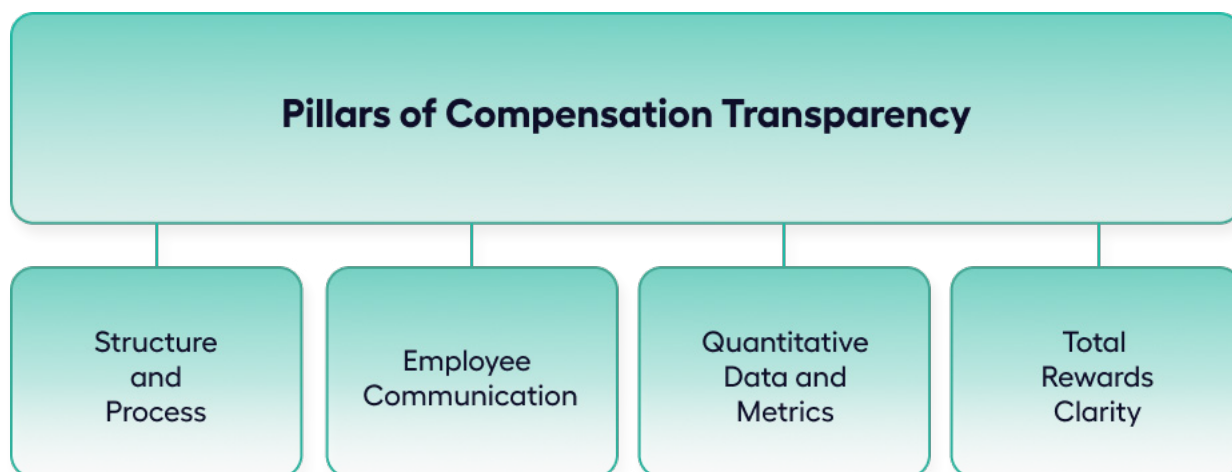
Defining what "fair" means to your organization will provide clarity and structure to your policy and processes — and where you fall in terms of transparency.

### Quick Definitions

- **Compensation transparency:** The level of information you share regarding how pay decisions are calculated and communicated.
- **Compensation philosophy:** Your "north star" for how you pay people. This should reflect your organization's priorities, culture, and values.
- **Compensation policy:** The structure, rules, and processes that enable you to apply your compensation philosophy, including hiring, progression, and compensation reviews.

# Implementing Pay Transparency Successfully

Pay transparency is often thought of as an endpoint or outcome to being more open about pay. In reality, it's a continuous process that can (and should) evolve alongside your organization.



*The four pillars of compensation transparency are structure, communication, data, and total rewards.*

As you define your level of transparency, the norms and compensation philosophy that worked for you at 20 employees may no longer fit the bill when you reach 200 employees.

That's perfectly normal. What matters most is creating processes and infrastructure that foster long-term understanding, establishing a continuous commitment to re-evaluating what's working, and adjusting processes and practices as you go. In the following sections, we'll discuss the four key pillars of implementing pay transparency successfully.

## **1 Create structured processes around compensation.**

Compensation transparency requires structure. Without it, raises and other rewards may feel random, and employees may feel that they're not being evaluated consistently compared to peers. Over time, this may lead to resentment and widen your organization's salary inequities.

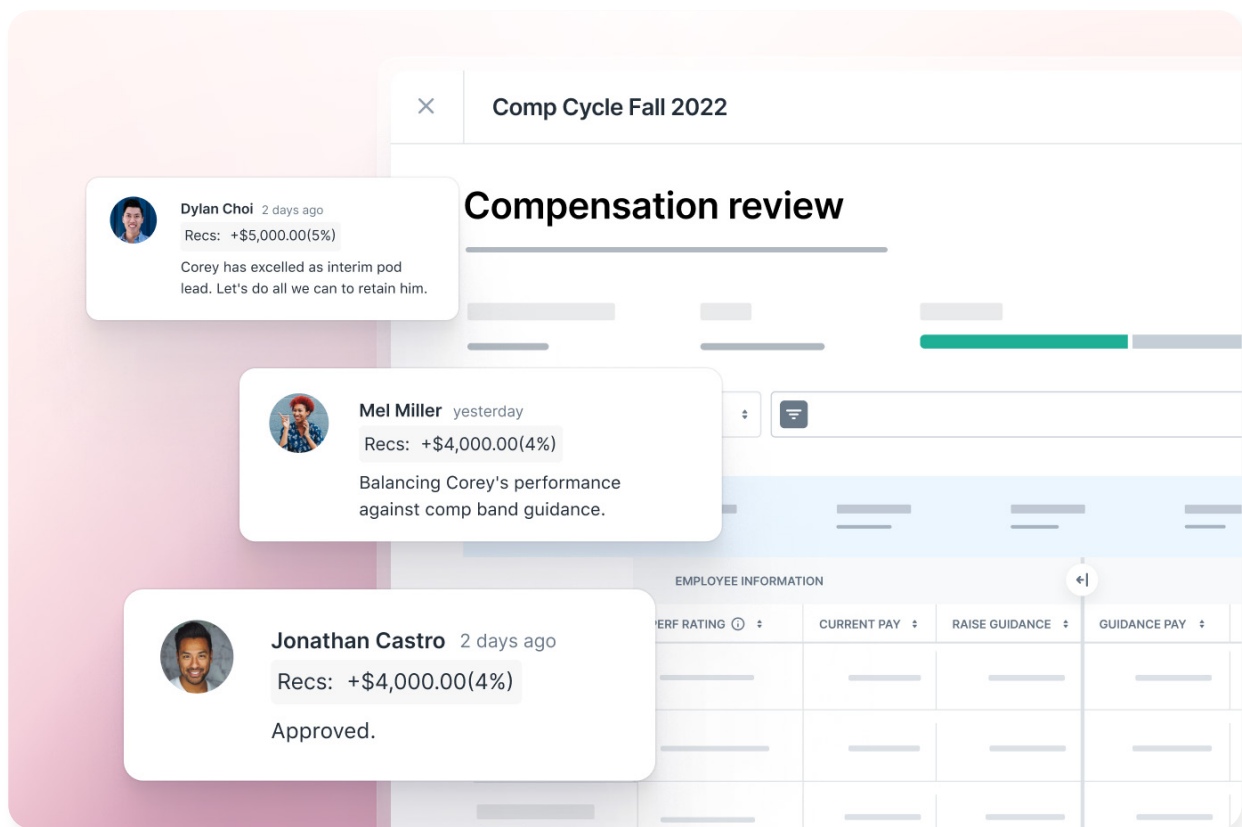
Defining these processes is critical to forming a compensation policy. Your compensation policy represents your compensation philosophy in action. It's the processes and methodology you use for calculating and administering compensation fairly and consistently at your organization.

These processes will form the guardrails for how people get paid at your organization, meaning everyone is evaluated according to the same criteria and knows precisely when and how discussions and reviews are likely to occur.

Depending on your compensation philosophy, you'll need to flesh out policies that add structure to core processes and concepts. Important processes include:

- **Pay bands:** [Pay bands](#) define the minimum and maximum amount a company will pay an employee within a specific job level. Together with competencies, pay bands create consistency across hiring, job progression, and performance management, paving the way to more equitable compensation decisions.
- **Review cycles:** Compensation cycles should be regular and consistent. A [2022 employee survey](#) found that over 30% of US employees expect a raise as often as every three to six months if they're meeting or exceeding performance expectations. Creating regular formal and informal touchpoints where employees can discuss pay and performance is essential to embed compensation transparency.
- **Pay-for-performance:** Bonuses, commission, and other financial incentives like profit shares must come with clear criteria on eligibility, regularity, and any special conditions to enforce unbiased behavior.
- **Salary audits:** Safeguarding salary equity requires you to keep an eye on pay gaps and inequities across your organization. Setting a cadence for salary audits will help you highlight issues as they surface, allowing you to rectify them before they get out of hand.

Documenting these processes and review cycles is critical to cementing a rhythm for compensation discussions that managers *and* direct reports expect and understand.



*Lattice empowers you to document the entire compensation decision-making process, from merit increase nomination to approval.*

Creating fact sheets or organizing lunch-and-learns can help employees understand how and why pay decisions happen. Meanwhile, [compensation management platforms](#) like Lattice Compensation can make this process more intuitive for managers and HR teams by creating structure, regularity, and trust around processes with a digital paper trail that documents decision-making.

## 2 Build a communication plan that helps employees attach meaning to pay.

True compensation transparency only works when everyone understands the process. For employees, it's not always easy to understand how the number on their paychecks correlates to their experience and performance.

If you can't explain your compensation process effectively to employees, you won't be able to foster trust in your process.

But context is everything. The same [2021 study published by the Oxford University Press](#) found that pay-outcome transparency — the degree to which organizations disclose pay rate information — can result in pay envy and lower discretionary effort. Another [2021 paper on the connection between pay and performance](#) found that when employees were led to believe they were paid less than a colleague, it led to a loss of trust.

This makes your [communication methods and culture](#) a better predictor of how pay transparency will land. Embedding pay transparency long-term relies on creating an effective communication strategy that educates employees on your pay process, helps them connect their contributions to their salary, and removes some of the secrecy behind employee pay and rewards.

**Be clear about decision-making criteria — especially when leveraging pay-for-performance.** Pay can be a great impetus for driving employee performance. And performance-based-pay, like bonuses and commission, can be a helpful short-term tool for increasing [motivation](#) and [productivity](#).

In our [2023 State of People Strategy Report](#), we found that 83% of HR leaders recognize the importance of linking compensation and performance together, while 64% of top-performing HR teams meeting or exceeding their goals already have a robust pay-for-performance strategy in place.

But getting performance-based pay right is all in the delivery. Without a thoughtful approach and clear criteria, performance-based pay may even *harm* performance and motivation and harm trust that your decision-making processes are fair.

If your organization opts for a [pay-for-performance](#) compensation structure, it's critical to focus on objective criteria to avoid ambiguity about how rewards are portioned. You'll need to set out structured eligibility processes for each type of

Once you've settled on the what, why, who, and how, it's essential to distill this information into a simple, understandable resource that employees can easily access across multiple platforms and channels. incentive you offer, and consider the below:

### Pay-for-Performance: Considerations and Questions to Answer

<b>Eligibility</b>	Will the financial incentive be awarded to all employees (like a share in a quarterly bonus pot), or will it just be awarded to specific teams (such as a sales bonus)? If so, which groups of employees are eligible?
<b>Cadence</b>	How often will financial rewards be awarded? Will this be contingent on external factors, such as completing a project, or hitting a specific revenue target, to be reviewed quarterly?
<b>Criteria</b>	What does the employee need to do to attain the financial reward? Will it be based solely on performance, or are there other factors?

Once you've settled on the what, why, who, and how, it's essential to distill this information into a simple, understandable resource that employees can easily access across multiple platforms and channels.

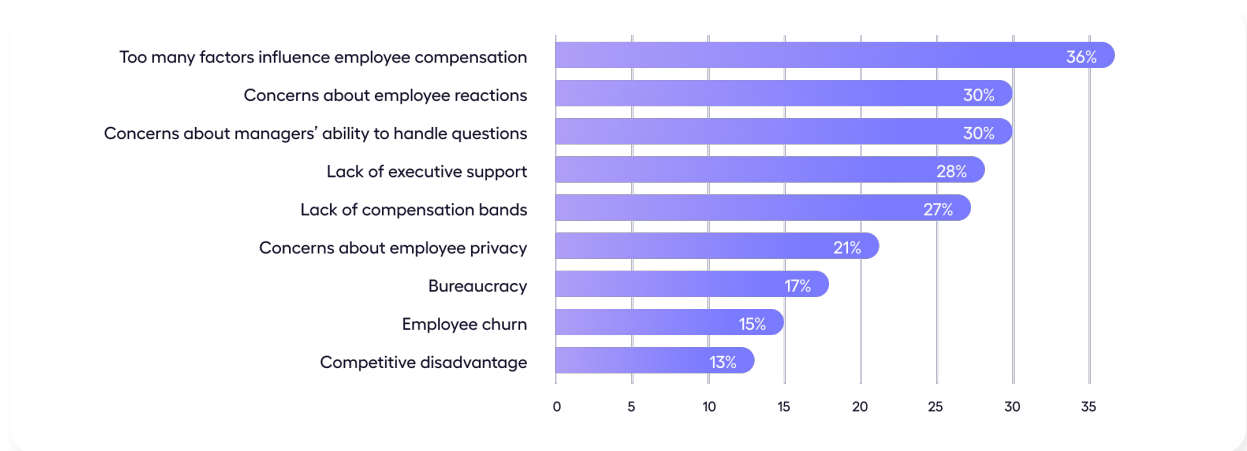


**Remember to provide managers with the resources and training to navigate compensation discussions.** Pay is often an emotive issue. And while organizations are often thinking about salary ranges and budgets, employees will often approach this conversation from a different perspective: how to pay the bills and put food on the table.

Messaging from the top is vital for instilling consistency and communicating your organization’s approach to compensation, but it does little to address the very specific, individual concerns and questions that pop up day-to-day.

In our [2023 State of People Strategy Report](#), two leading barriers to pay transparency included concerns about employee reactions and managers’ ability to handle questions on pay.

### Barriers to Increasing Pay Transparency



*Compensation is complex, and HR teams don't have full confidence in managers' ability to handle pay-related questions.*

Pay transparency is built on communication — but it’s forged with trust. Maintaining that trust depends on allowing employees to discuss pay at work. And as a regular point of contact with your workforce, managers are vital in bridging the pay transparency communication gap.

This can only work successfully if your managers have the right resources and information to navigate compensation discussions with their team.

As part of your pay transparency communication strategy, you’ll need to ensure managers feel prepared to answer some of the most common questions they’re likely to hear from their team. You’ll also need to ensure they know your organization’s compensation philosophy and processes around progression and performance.

Using a [compensation management platform](#) can help add structure to this process by creating regularity and documentation around pay discussions and performance reviews and providing benchmarking data to guide decision-making.

But outside of structured processes, managers must also have the support and coaching to answer day-to-day questions, and to manage employee expectations around pay sensitively and empathetically — especially if there's the potential for disappointing news.

 **Tip: Prepare managers to answer key compensation questions.**

Preparing managers to answer common pay questions will keep communication lines open, maintaining trust. Try creating a crib sheet to help managers answer questions in a factual, easy-to-understand way.

Use these questions to guide you, adding more of your own to address your organization's unique setup:

- How is my pay calculated?
- Why is my salary higher/lower than a peer's in a similar role/job level?
- How can I find my salary range, and how is my salary calculated within this range?
- How do bonuses and other performance-based incentives work?
- How often is pay reviewed? How do I know if my pay is still competitive?

### **3 Leverage quantitative data and metrics to guide policy and process.**

One factor holding organizations from implementing pay transparency may be the fear that past pay decisions will come back to haunt them. After all, in the [\*2023 State of People Strategy Report\*](#), over 80% of HR leaders acknowledged they could do more to improve compensation equity.


The concern is understandable — but rather than viewing compensation transparency as uncovering past salary mistakes, try to view it as an opportunity to act to rectify them. Data is key to taking this step.

Without regular access to real-time data on your organization's compensation setup, any attempt you make to correct discrepancies or adjust employee compensation will be a shot in the dark. Over time, this can magnify discrepancies, allowing salary inequity to flourish.

But when you can use data to track salaries against market rates, show a paper trail for decision-making, and maintain a structured and consistent process around pay and reward, employees are far more likely to trust that your processes are fair.

**Next, identify and track the compensation metrics that matter.** Tracking the right compensation metrics isn't just important for your current workforce — it influences your ability to attract and retain talent in the future.

Using your compensation philosophy as a guide, define the metrics that matter most to help you gauge how well compensation is working at your organization. Consider your primary goals and beliefs when paying your workforce, and use these metrics to equip managers and key hiring decision-makers with objective data.

 **Tip: Evaluate your organization's compensation priorities to identify your core metrics.**

Different organizations have different compensation priorities — so it's critical to select the metrics of success that matter most to your company.

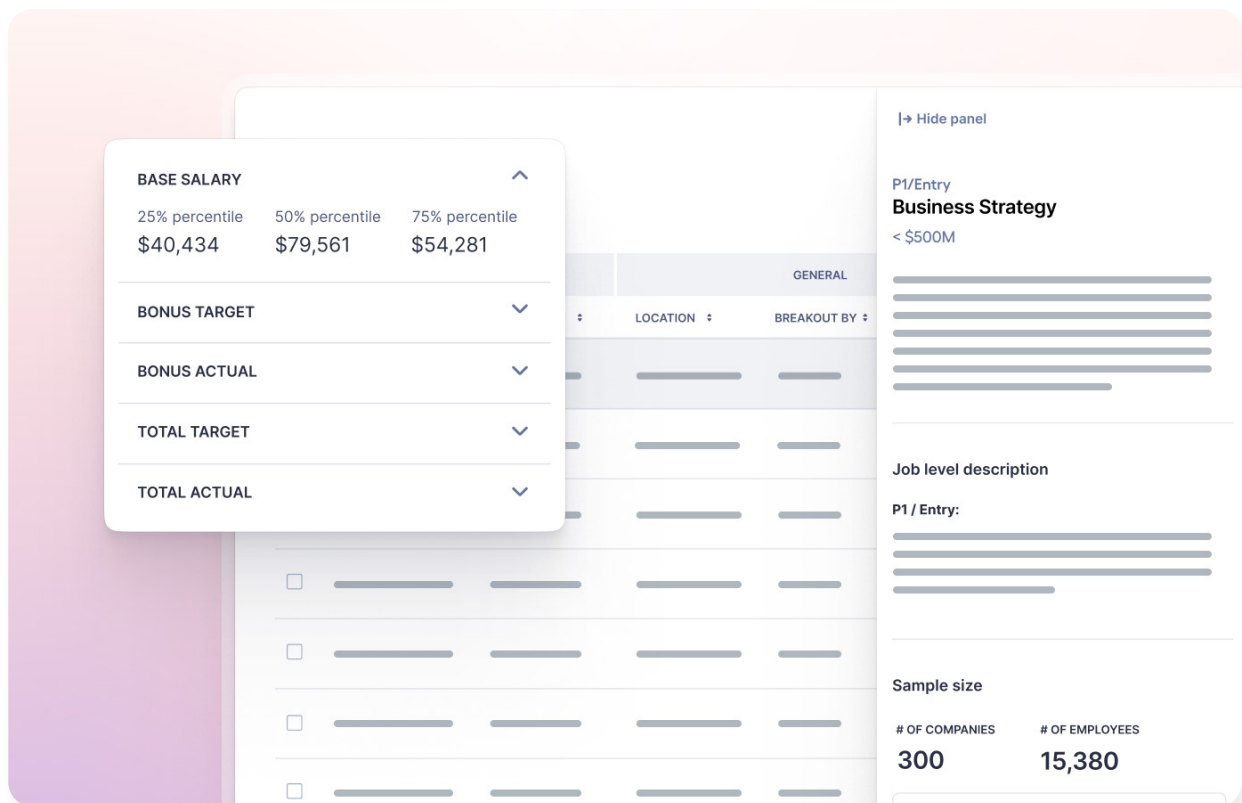
But knowing what to track can quickly get overwhelming. Use these guiding questions to help clarify and align your metrics with your compensation philosophy:

- What processes and actions go into each compensation decision?
- What are our key goals and beliefs outlined in our compensation philosophy?
- What metrics best align with our compensation philosophy?
- What KPIs will we track to determine if our compensation processes are working?
- What are our indicators that show they aren't?

Depending on your goals and core beliefs, impactful metrics may include:

- **Performance ratings:** With organizations increasingly integrating performance and pay, employee performance is a key metric for tracking how employees are performing and ensuring that top performers are being rewarded for their efforts.
- **Talent metrics:** If your primary goal is talent attraction, then tracking offer acceptance rates, time-to-fill, and time-to-hire may help give you insight into how competitive your offer is, depending on the role and market conditions.
- **Salary equity:** If DEIB and salary equity are key parts of your compensation philosophy, benchmarking salaries among different employee segments can highlight racial and gender pay gaps. For example: How fairly are women paid compared to men at your organization? How do salaries among employees from underrepresented groups compare?

- **Goal attainment:** [Connecting OKRs and goals to compensation](#) helps employees link performance and business outcomes. For organizations prioritizing performance, this can be a helpful metric when implemented thoughtfully and viewed in the context of individual performance over time.
- **Market rate:** External [compensation benchmarking](#) tools can be a helpful guide to help organizations gauge their market competitiveness against organizations of a similar size or industry sector, especially for organizations operating in multiple geographies. Remember that compensation benchmarking tools should be used as a guide only, and that any changes you make should align with your compensation philosophy.



*Lattice Compensation Benchmarking, powered by Mercer, gives you access to market rates collected from thousands of companies.*

As you run your analysis, remember that pay does not exist in a silo, and that even if you fix the monetary discrepancy, true root causes often run deeper. Compensation interlinks with a number of other key employee lifecycle factors, including engagement, turnover, employee progression, and DEIB. Integrating your compensation data with these additional factors can help shed light on deeper issues within connected processes that may be flying under the radar.

## 4 Increase clarity and visibility with total rewards statements.

Compensation isn't just about the money — it refers to the entire spectrum of rewards and financial incentives employees receive from working with you. As employees continue to feel the effects of the [cost-of-living crisis](#), many look to organizations to support their whole selves — inside and outside work.

But according to a [2021 survey by benefits provider Voya](#), 35% of employees don't fully understand their benefits package. A further 66% said they wanted their employer to take the lead in helping them better understand what's available to them.

One way to ensure employees feel fully supported is by helping them understand the full value of their employment package — also known as [employee total rewards](#).

Employee total rewards refers to the [monetary and non-monetary benefits employees earn at your organization](#). This can include: performance, and holistic rewards.



*The three buckets of total rewards: traditional, performance, and holistic rewards.*

A robust employee total rewards package can help talent attraction and [retention](#) from an employer branding perspective. It also communicates that you're committed to holistically supporting your employees, including their emotional, mental, physical, and career development needs.

Outlining these benefits in a total rewards statement helps you itemize what's available to your employees, meaning they get used and appreciated rather than gathering dust.

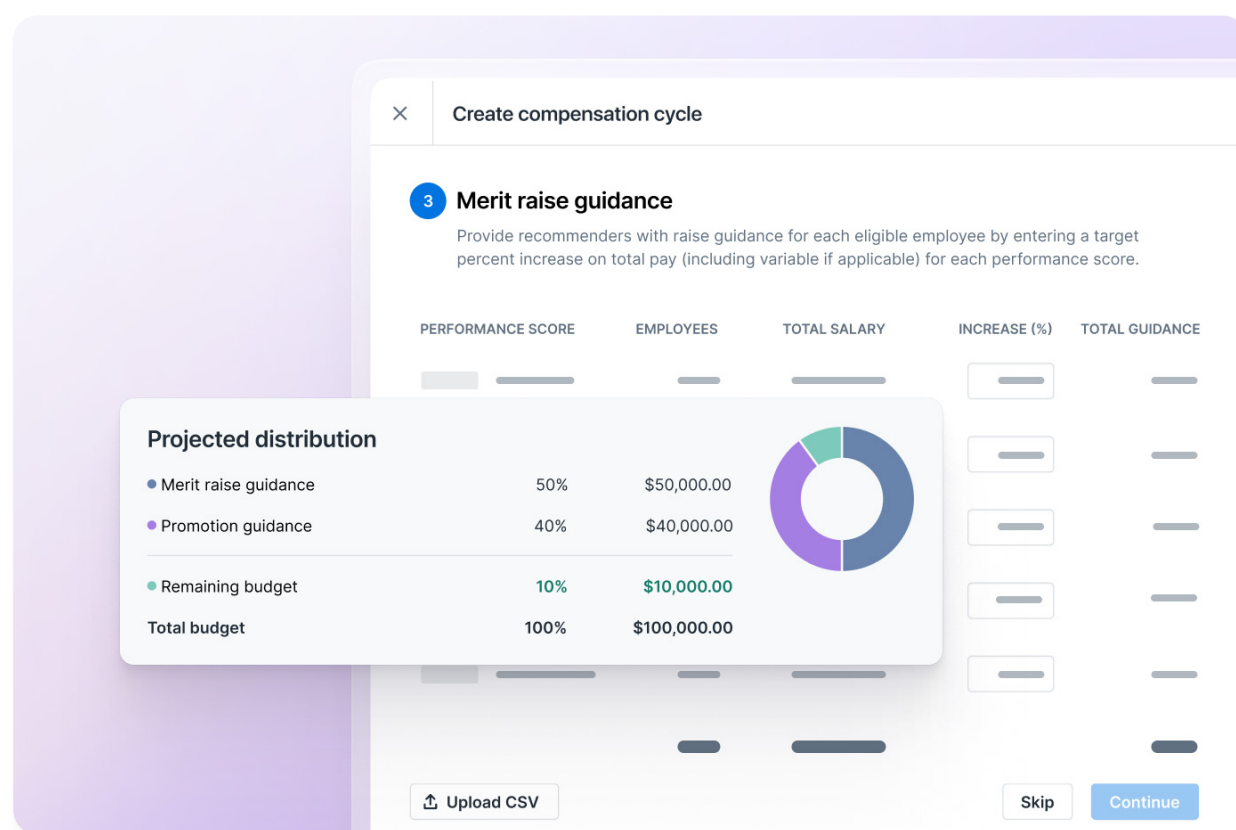
Once you've compiled your total rewards statements, ensure they're accessible to all current employees and new joiners as part of their onboarding process. But don't take it for granted that employees will think to access this document of their own accord — instead, make sure you communicate benefits and perks at regular intervals.

Remember that the [most meaningful benefits](#) are the ones that employees actually need and access regularly — and that employee needs will evolve over time. Asking for employee input via engagement surveys can help surface quantitative and qualitative data on how employees feel about your benefits, while evaluating benefits utilization can highlight when benefits aren't working or if more communication is needed.

# Creating Compensation Processes That Scale

Compensation transparency isn't just a trend — it's becoming a codified way of operating for organizations across the globe. And as employees continue to demand fair rewards and equitable working practices, the organizations that act now — before these demands rise to a roar — will ensure that high performance, employee retention, and trust are maintained long-term.

Building compensation transparency is less about sharing salary data and more about your organization's actions to show your workforce that you're committed to rewarding them fairly for their contributions. Open dialogue, data-backed decisions, and objective processes are vital to embedding pay transparency into your culture.

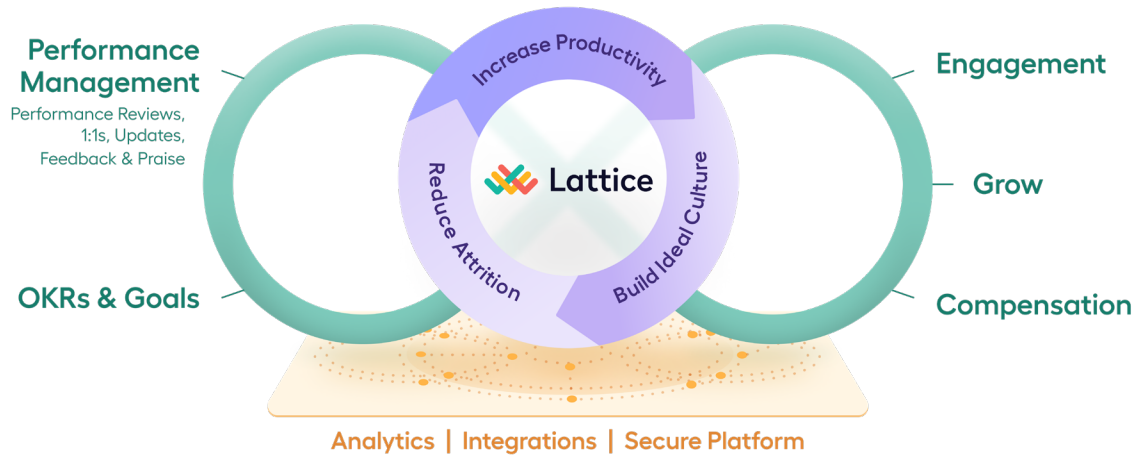


*Lattice Compensation helps HR teams easily manage every part of the compensation review process in a secure, centralized hub.*

Lattice Compensation takes the guesswork out of pay, empowering leaders to review benchmarks alongside performance ratings — making for more transparent (and equitable) compensation decisions. HR teams can generate employee-centric compensation communications in just a few clicks, so everyone understands exactly how their total rewards package is changing and why — bringing clarity and consistency across the entire organization. To find out more, [request a demo of Lattice Compensation](#).

# About Lattice

Lattice is the people success platform that enables HR leaders to develop engaged, high-performing teams. By combining continuous performance management, employee engagement, development, compensation, and growth in one solution, organizations get powerful, real-time analytics that leads to actionable insights turning managers into leaders, employees into high performers, and companies into the best places to work.



## The Lattice People Success Platform

Lattice works with companies that aspire to put people first. Whether redefining the beauty industry or building self-driving cars, all of our customers have one thing in common: They value their employees and want to invest in the development and success of their people. To see Lattice's platform in action, [schedule a product tour](#).

### Trusted by the best places to work

Discover how Lattice empowers thousands of companies to build award-winning cultures.

Request a demo

