Pay Transparency: Status Quo and Competitiveness in Switzerland

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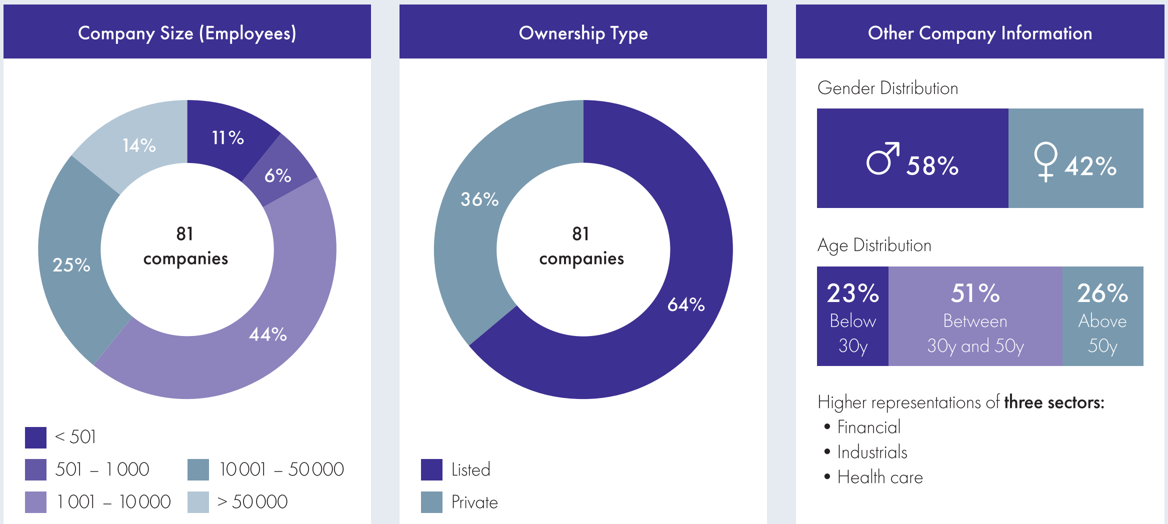
1. Introduction

Pay transparency, once a sensitive «taboo topic» among employers, is now a central issue in labor discussions. This shift in focus is a response to evolving regulatory pressures, especially in the European Union and the United States, and a strategic move by companies aiming to position themselves in a competitive job market. As a result, more and more companies are focusing on pay levels, processes, and communication. However, uncertainties remain on what pay transparency means in practice and how corporations can address it in an effective way that benefits both the company as well as its employees.

To take the pulse of companies' status quo and competitiveness around pay transparency in Switzerland, HCM International and the Institute for Law and Economics of the University of St. Gallen – two partner organizations of the Network for Innovative Corporate Governance (NICG) – conducted a survey between the end of summer and fall 2023. The survey gathered a total of 81 answers from companies characterized by different size, sector, and demographic imprint (see Figure 1). 93% of respondents work in the human resources (HR) function, others are members of executive boards.

One of the most important findings of the study is that companies see, assess, and act pay transparency differently depending on the type of ownership. By separating between listed (64% of respondents) and private companies (36% of respondents), the results of our survey allow HR professionals and corporate decision-makers to derive key insights matching their individual situations and set ups.

Figure 1 – Overview of survey participants



For example, the reasons why pay transparency is considered important are different: 81% of respondents from listed firms report that regulatory pressure is the main driving factor adding pay transparency to their priority list. In Switzerland regulatory developments are led by the Swiss Federal Office for Gender Equality (FOGE), which acts on the basis of the constitutional principle of «equal pay for work of equal value». To address the existing gender pay gap, the Gender Equality Act was revised in 2020 obliging all employers to pay their employees equally for work of equal value (Art. 3 GEA).[1] This resulted in mandated equal pay analyses that are progressively getting more demanding. Notably, the average gender pay gap decreased in recent years, nevertheless, still in 2023 women in Switzerland earn 18% less than men – which translates, on average, in around 1'500 Swiss francs less per month.[2]

More recently, also various US states and the European Union have updated their regulatory regimes around pay transparency – which will to a certain extend also directly affect Swiss businesses through their foreign subsidiaries.

For instance, the EU pay transparency directive will raise the bar for companies operating in the EU.[3] More in detail, the directive requires advertised positions to disclose details on starting salary in the recruitment process, employees to have an information right on pay levels, and the possibility to impose fines for employers that allow for pay discrimination.

Regulatory developments are less relevant for private firms when it comes to the reasons for addressing pay transparency. In fact, private companies most frequently name employer branding as the main driver. While employer branding and reputation are ranked as a material factor for both, listed and private companies, internal pressure is actually much more marked at private companies rather than listed ones, with 59% and 17% answers from respondents, respectively. Many companies realize that in the current labour market environment, employees' demands and job market expectations have increased, leading to intense competition for attracting talent and significant efforts to lower attrition rates. One promising measure in this regard seems to be in-depth reviews to identify existing pay disparity and / or inconsistencies in current pay systems and to provide for transparency around pay frameworks.

1 Federal Act on Gender Equality (Gender Equality Act, GEA), 2020.
2 Federal Office for Gender Equality. (2023). Promoting equal pay with Logib.
3 Council of the EU. (2023). Gender pay gap: Council adopts new rules on pay transparency.

Taken together, both regulatory developments and employer strategy considerations led to pay transparency gaining momentum over the last five years: the survey reveals that today, more than four out of five companies confirm that the subject is «moderately important» or more.

In the following paragraphs, we address three core questions based on our our survey around pay transparency:

1. What is driving company action towards more pay transparency?
2. Which are the expected benefits and risks of a higher pay transparency?
3. How does pay transparency vary among different elements of pay?

2. Three core results from the survey

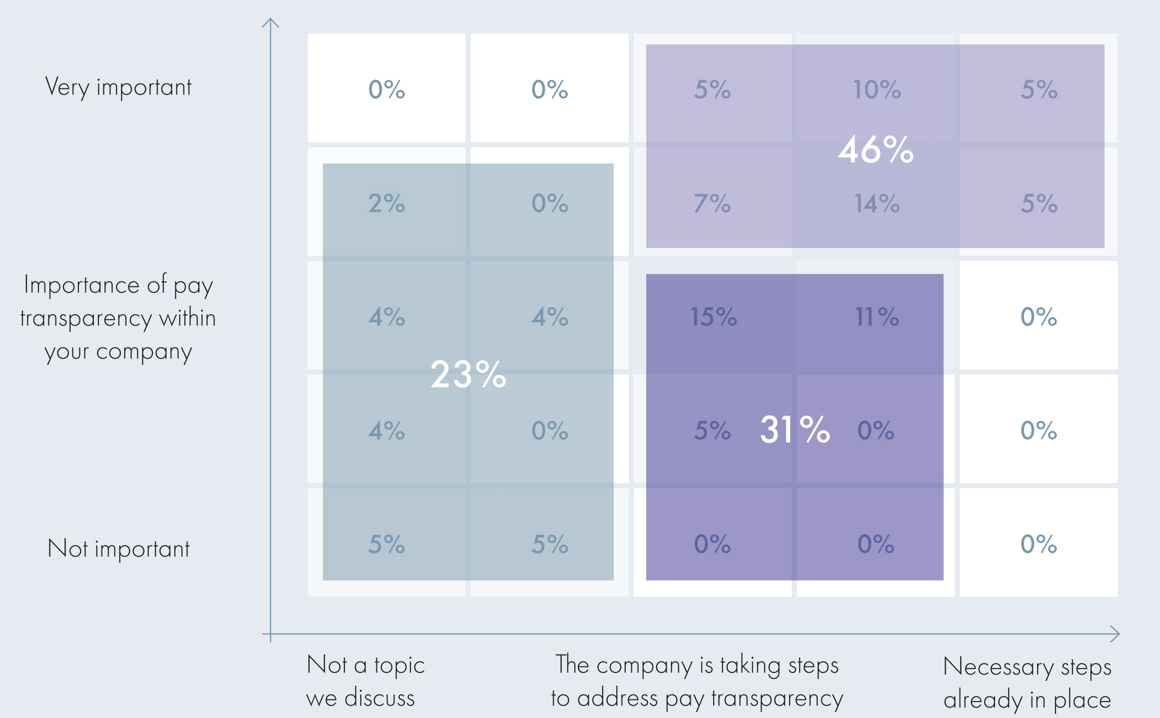
2.1 Awareness drives action

Regardless of the concrete underlying driver, companies rating pay transparency at least «moderately important» are more likely to take steps to address it, compared to firms that view the issue as «less important». Figure 2 shows that 46% of companies in the sample are taking steps to address pay transparency and that such a move is associated with a high degree of awareness. At the same time, 31% of firms take action despite below average levels of awareness, and 23% of them – regardless of the level of awareness – are not taking any action.

A similar positive association is also found between importance and pay reviews aimed at identifying existing pay disparity. The study finds that 50% of listed firms conducted internal reviews leveraging on in-house resources, while 52% of private companies performed external reviews with the support of third-party advisors.

Most survey participants see the HR function being in the driver seat in addressing pay transparency. Given the survey finding that high awareness translates into

Figure 2 – Relationship between importance of transparency and action taken



action, HR leaders as a first step may want to increase awareness on the topic, including top management and the Board of Directors.

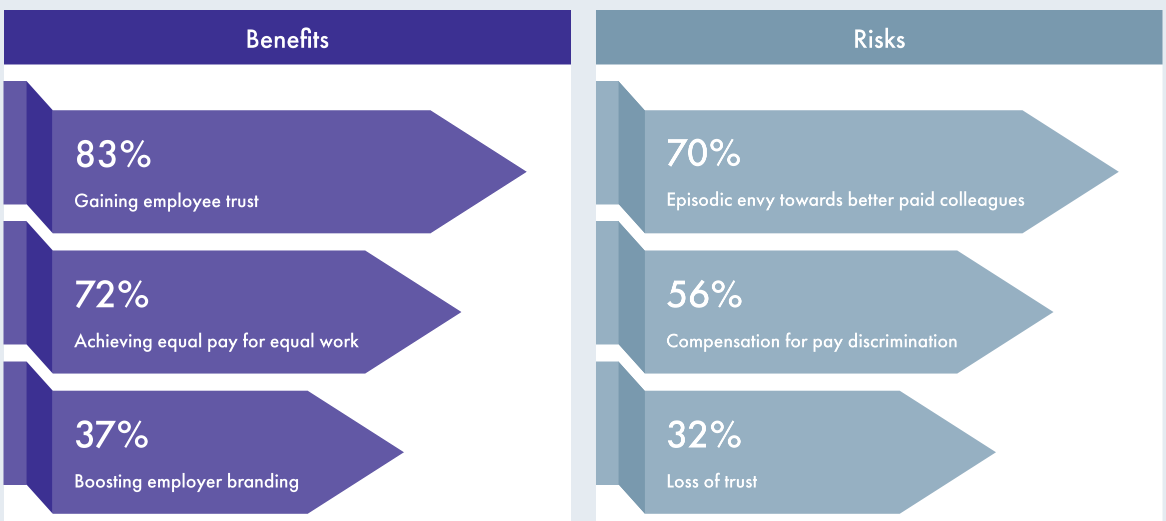
2.2 Employees will benefit but risks shall be actively managed

77% of survey participants expect that employees are the main beneficiaries of an increased level of transparency around pay. But while there are a lot of benefits envisioned for employees that come along with higher pay transparency, there are also certain risks that need to be carefully addressed and managed for those benefits to materialize. Figure 3 ranks the three main benefits and risks of high pay transparency that survey participants expect.

On the one hand, 83% of participants expect gains in employee trust and 72% mention the ultimate goal of achieving pay equality. Also the objective to boost employer branding, one of the main drivers to engage in the discussion around pay transparency in the first place, is mentioned again by 37% of respondents. On the other hand, episodic envy towards better paid colleagues and loss of trust are identified as key risks to manage. In particular, concerns related to episodic envy reflect prior research on the mediating effect on the relationship between under-met pay standing expectations and job satisfaction.[4] It seems the HR functions are walking a tightrope between upsides and downsides of a higher degree of pay transparency.

Concerns around the reaction of employees are also justified given that nowadays compensation matters are still considered very sensitive in most settings. In fact, a significant fraction of companies demand that employees refrain from communicating compensation details internally and externally. While 23% of companies informally discourage employees from communicating pay related information, a solid 21% formally forbids it – whether through a clause in the working agreement or with a provision in the code of conduct.

Figure 3 – Benefits and risks of increased pay transparency



4 Schnaufer, K., Christandl, F., Berger, S., Meynhardt, T., & Gollwitzer, M. (2022). The shift to pay transparency: Under met pay standing expectations and consequences. Journal of organizational behavior, 43(1), 69-90.

For firms to maximize benefits and minimize risks, clear communication is key. This could be promoted by providing guidance on what criteria are used to determine salaries, how salary bands are set or how the link between performance and compensation works. As a consequence, employees may feel more at ease to talk about compensation if a framework is developed and understood.

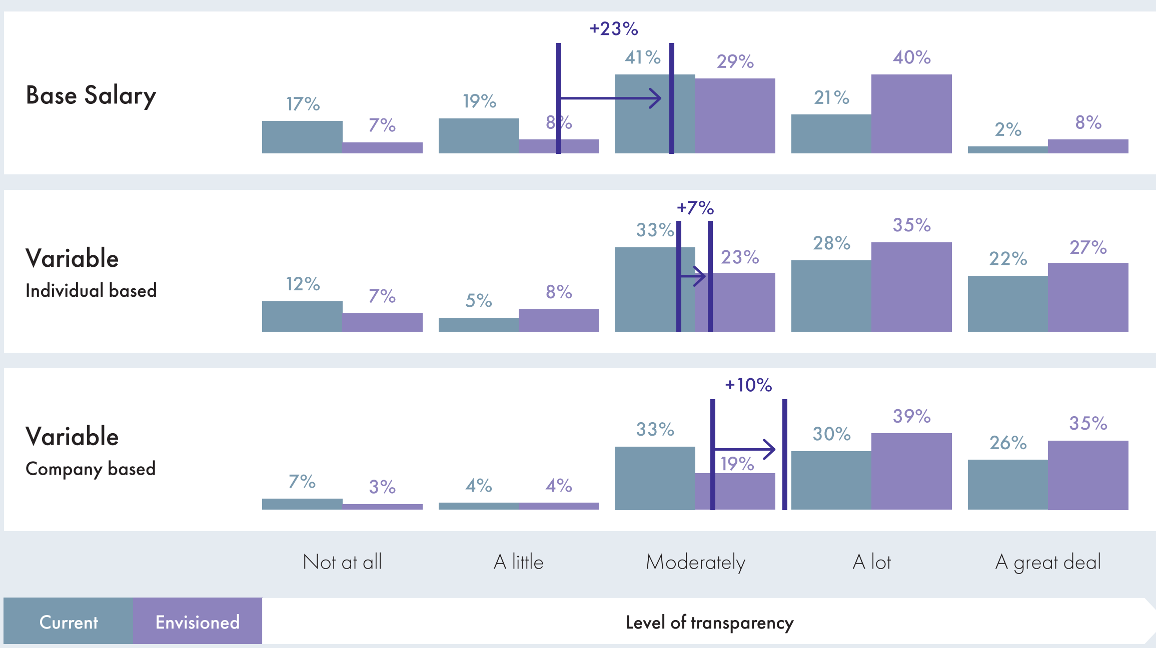
2.3 The level of pay transparency varies for different elements of pay

Pay transparency has a multi-dimensional nature. For 77% of respondents, pay transparency means that employees are informed about the process on how pay is determined. Another very common interpretation of the definition of pay transparency, that is shared by most of the survey participants, focuses more on the level of pay. Hence the outcome of pay discussions around pay gaps, salary bands, and external disclosure of pay ranges in job posting. Noticeably, for most companies it is easier to improve the robustness of processes while adjusting company-wide pay outcomes could require significant negotiation efforts and might have material impact on profitability: 36% of companies assume that average pay will grow, only 2% expect average pay to fall.

With regards to the expected impact on different elements of compensation, our analysis shows that a higher degree of transparency is generally expected for all compensation elements – but with different levels magnitude, as shown in Figure 4.

For base salary, which is nowadays the least transparent (on average «a little»), firms expect an overall 23% increase in transparency, with almost half of companies envisioning to be «a lot» or «a great deal» transparent in the future. While this marks the highest absolute expected increase in pay transparency across all pay elements, the envisioned transparency on base salary determination is not even able to catch up with the current levels of transparency of variable pay elements. Looking closer at the difference between individual- and company-based variable pay, survey participants expect that variable pay mainly based on individual performance (e.g., individual bonus) will not become as transparent as variable pay mainly based on company performance: we note a 7% increase in transparency for individual-based against a 10% for company-based. Variable pay mainly based on company performance is and will be the pay element with the highest level of transparency with three quarter of respondents expecting it to become «a lot» or «a great deal» transparent.

Figure 4 – Magnitude of increases in pay transparency for different pay elements



One of the reasons for the higher level of transparency of company-based variable pay is that line managers and HR professionals might find it challenging to defend pay divergencies due to individual performance. While this sounds intuitively and rationally the right thing to do and the anticipated logical consequences of individual-based variable pay, our experience shows that in fact rather little pay differentiation can be observed within individual systems. Variable pay which is driven by company performance often follows more fact-based and comprehensive rules, which are easier to communicate and to follow.

The consideration around the ability to communicate pay differences is especially relevant since respondents signaled strong concerns around communication skills of leaders: 55% of participants disagreed with the statement «our Leaders (managers) are equipped with the needed skills to implement pay transparency (e.g., communication skills if required to explain 'justifiable' pay gaps)». This specific challenge might be mitigated by a shift towards variable pay mostly based on company performance. As a matter of fact, this study shows that 78% of listed companies already tend to measure performance of long-term variable pay using predominantly company performance metrics.

3. Governance considerations around pay transparency

The survey results demonstrate how regulatory developments and employer strategy considerations contribute to raise the interest in pay transparency. The internal and external scrutiny on such a sensitive topic is set to have broader implications, with potential profound impact for employees' morale, trust, and commitment. In addition, pay transparency discussions will stretch beyond HR functions and involve executives and Board of Directors. Employees' expectation for pay transparency makes it a strategic topic for employers and requires directional views and guidance from the top. Companies are embracing pay transparency not just as a legal requirement but as a tool to attract top talent, foster trust, and build a more equitable workplace culture.