

Closing the Pay Gap: The EU Pay Transparency Directive, Insights from Thierry Baux

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Insights from Thierry Baux, Managing Partner of IMSA Search Global Partners France and CEO of B-Ressource

Today, with intense focus on workplace equity, diversity, and inclusion, a spotlight is shining on the gender pay gap, the difference in earnings between women and men. According to the recent World Economic Forum's Global Gender Gap Report, while before Covid the pay gap was predicted to close in 100 years, it is now estimated to take 132 years to close the gap.

In Spring 2023 in the EU, the Council of the European Union introduced a remedial directive to address the growing gap entitled the EU Pay Transparency Directive. This Directive promotes fair pay between women and men with transparency measures, dissuasive sanctions, and obligations. It requires EU companies to share wage information and to take action to address gender pay gaps. It also includes provisions for victim compensation and

finances for employers that fail to abide by the rules.

What is the Typical Gender Pay Gap in the EU?

According to Statista 2024, men in the EU earn on average 13% more per hour than women (based on 2021 earnings data). Of note, the gap is not uniform across Europe. Estonia has the largest gap which is close to 21%. Austria, Switzerland, Germany, Hungary, France, and Norway, among others, have a gap that exceeds 13%. In some countries, such as Romania, Poland, Italy, and Spain, the gap is smaller than the EU average. Only Luxembourg stands out with no pay gap!

Timeline for Implementation

Companies in the EU with 100+ employees have until June 2026 to comply with the Directive. Companies with 250+ must comply immediately. Nevertheless, many are expected to comply as early as 2025, particularly US organizations with EU presence. And the World Economic Forum is encouraging companies to disclose their pay equity standards voluntarily.

What the Directive Means for Employers

When the new Directive is implemented, wage secrecy will be outdated. Specific requirements include:

- Employers must inform candidates of starting pay or pay range prior to an interview or in job postings or advertisements
- Employers are not permitted to ask a candidate about pay history, however, an employee may volunteer the information
- Employers need to be able to explain criteria used to determine pay and career progression, ensuring objectivity and gender-neutrality
- If the pay gap is more than 5% in any category of workers, the employer can either close the pay gap within 6 months or conduct a pay assessment and associated action plan
- Dissuasive sanctions, including fines, will be imposed on employers that do not comply

What the Directive Means for Employees

Employees who are optimistic believe the Directive will lead to long overdue concrete changes and better recognition of the value of the work of women.

Employees who are pessimistic may have reservations about the effective applications by employers. They may also anticipate tensions between colleagues when wages are disclosed – not only between men and women, but among all colleagues. Further, they may be concerned that the labour market should be allowed to regulate wages without outside intervention, while others may be concerned about invasion of privacy.

How Are Business Leaders Responding?

Overall, business leaders' attitudes vary widely, ranging from proactive acceptance to passive and/or active resistance:

Acceptance and Compliance

Some companies are accepting the new rules and complying with requirements. These companies may use their focus on the Directive to strengthen their brand as a diversity and inclusion employer and to promote their culture of equity.

Resistance and Mistrust

Some business leaders view the Directive as interfering in company internal affairs. Others think the rules may not account for individual performance, nuances, and specifics of each job. These leaders may try to circumvent the rules or limit their application.

Wait-and-See Attitude

Other companies (a significant number if we look at the reactions on the French market) are adopting a wait-and-see attitude, waiting to see when and how rules will be applied by authorities. Reactions are likely to be influenced by legislation in the country in which the company operates, as well as culture, values, and social pressure.

The EU Pay Transparency Directive is a crucial turning point in building a fairer and more transparent pay culture throughout Europe. Companies, while meeting these challenges, will be able to seize this opportunity to strengthen their attractiveness, productivity, and ethics. The intention is laudable. Nevertheless, its application will not be without obstacles.

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