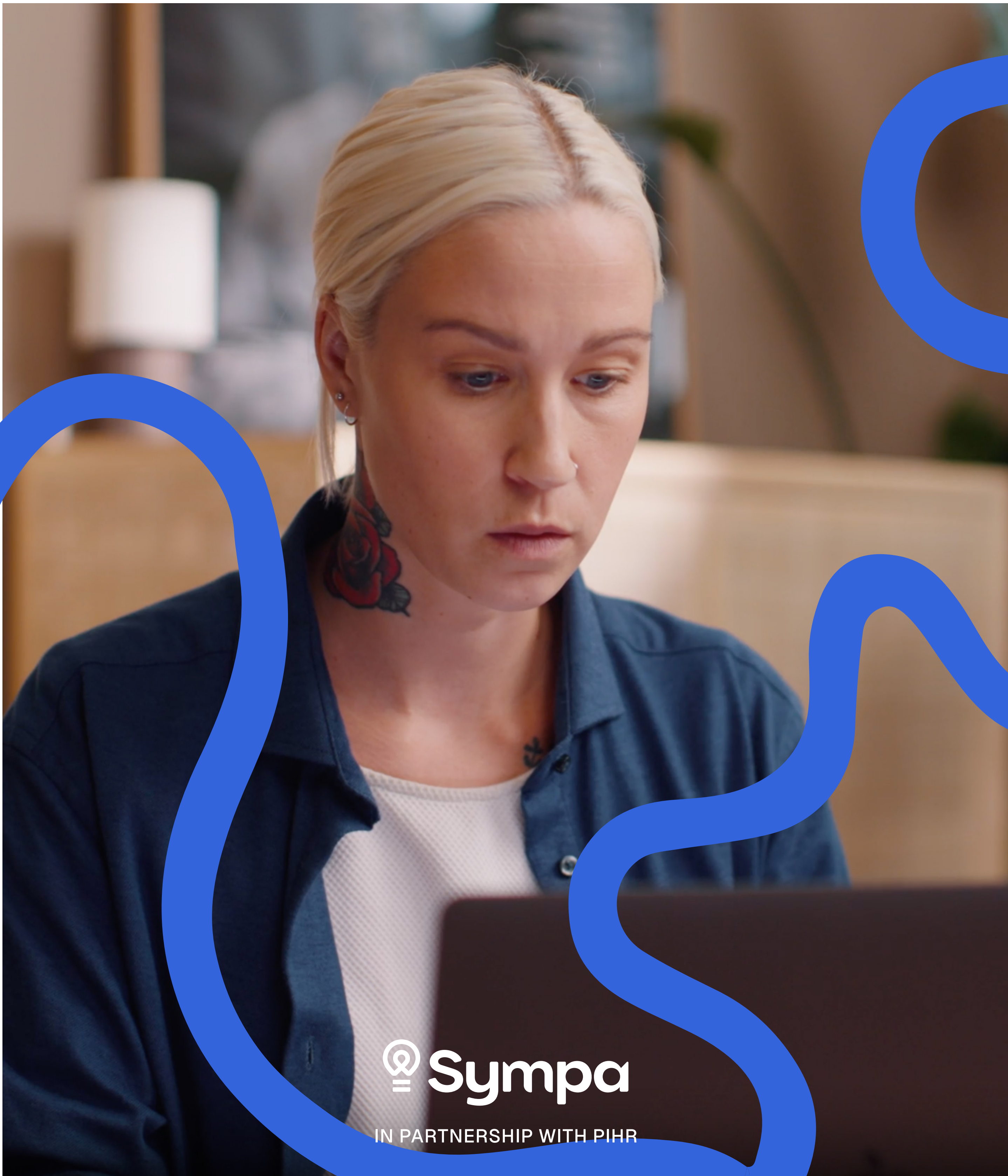
A STRATEGIC OPPORTUNITY FOR HR AND BUSINESS:

Understanding the EU Pay Transparency Directive



While flying under the radar for now, the EU's upcoming pay transparency directive is a potential seismic piece of legislation with implications that could surpass the impact of GDPR. Set to take effect in 2026, it presents a real challenge for businesses that don't prepare for its effect in time – and a huge opportunity for those that take immediate steps to reevaluate their approach to pay transparency.

The EU Pay Transparency Directive – key takeaways

In June 2026, the EU Pay Transparency Directive will introduce a mandatory set of reporting requirements for all EU companies with 100 or more employees. These companies will need to publish both the salary ranges for each job role within their organisation, as well as any pay gaps related to gender.

In practice, this pay gap is defined as a discrepancy in pay between workers of similar experience and skill levels, or workers that perform different job roles that are categorised as "equivalent work," such as warehouse workers and checkout assistants at supermarkets, for instance.

What is not widely known, but is of equal importance, is that the directive will also allow employees at companies of any size to be able to request information on how their own pay compares with peers in the same position, as well as equivalent roles. While smaller companies are not mandated to make these figures a matter of public record, this means all employers within the EU have a legal obligation to collect and make available all gender pay gaps and salary ranges that exist within their organisation.

Financial, legal, and employer brand impacts

The fact that this information will be made public is seismic in its implications. Unions will be able to analyse the records of every company from SME to multinational, leading to the real possibility of collective claims over pay. A media field day is also a possibility, if for instance the Swedish offices of a multinational bank report a much higher gender pay gap than their German counterparts.

Beyond the risk of fines, it has already been observed in the UK, where similar legislation has already been passed, that companies experienced a decline in female applicants due to negative perceptions surrounding gender pay gaps.

How a proactive approach turns a challenge into an opportunity

Pay transparency is coming, and nothing will change that. In fact, there are only 2 – possibly 3 – annual salary review rounds left before the Directive comes into effect. This is why the work has to start now. HR can become a key ally to their company CFO and board, who may not be aware of this coming change, by starting the discussion around pay transparency today. This is where pay equity tools will more than repay any initial investment.

While significant salary ranges and pay gaps may be present, the focus should be on proactively addressing them. This is how companies can differentiate themselves, enhance their employer brand, and attract top talent.

The importance of effective communication

Start by publishing your starting point - the base pay ranges and gender gaps that exist today. As the directive mandates annual reporting, the opportunity lies within demonstrating continual improvement, building a positive trend line, reducing the ranges and gaps. The HR teams that communicate this between now and 2026, whether through public reporting, job ads, websites, and the media, will build an employer brand that demonstrates their commitment to fair pay practices and progress.

A final call to action

In preparation for the 2026 implementation, businesses are encouraged to view this directive as a catalyst for positive change. By starting preparations now, companies cannot only avoid potential penalties – they can position themselves as leaders in fair and transparent compensation practices.

When it comes to a strategy for attracting and retaining the best talent in a profitable, sustainable way, this is hard to beat.

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