

SYNDIO

The hidden cost of ungoverned pay decisions

Why pay is your largest ungoverned capital allocation
and what that costs you every quarter

Table of Contents

EXEC SUMMARY	Pay decisions are capital allocation decisions
PART I	The governance asymmetry
PART II	How ungoverned pay decisions compound
PART III	Two leaders, one blind spot
PART IV	What governance makes possible
PART V	The case for acting now
CONCLUSION	The one question

Pay decisions are capital allocation decisions

CFOs apply rigorous governance to every significant capital allocation their organisations make: M&A, capex, R&D, debt issuance. Each requires a business case, an approval chain, and a post-decision review. The governance infrastructure is commensurate with the scale of the commitment.

Compensation does not follow this logic. It is 48% of GDP across the EU, more than half in nine member states, up to 55% in Germany. And yet the individual decisions that produce that spend are made without following a consistent framework, without a record of reasoning, and without any feedback loop connecting them to the outcomes they were meant to drive.

This paper makes the case that pay decisions are capital allocation decisions. Treating them as an administrative process is costing organisations more than most finance teams have ever measured. The costs are structural, recurring, and — critically — compounding. A single mispriced offer doesn't simply cost the amount of the error. It costs the compounded sum of every pay decision that follows.

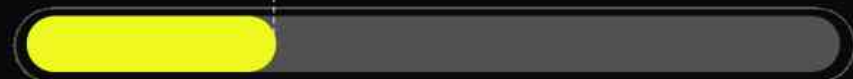
The organisations that have closed this gap are embracing the latest technological advancements to apply a similar governance infrastructure to compensation that is already in place across every other domain where executives manage capital at scale.

48% of EU GDP is compensation — and above half of GDP in nine member states



TOTAL OPERATING COSTS FOR AN ORGANISATION

30% of new hires are overpaid at offer by ~8%, which **compounds with every subsequent pay decision**



NUMBER OF NEW HIRES OVERPAID AT OFFER

PART I

The governance asymmetry

Your largest capital commitment lacks a governance framework.

There is a principle embedded in how every well-run finance function operates: governance infrastructure should be proportional to the scale and irreversibility of the commitment. A €500,000 software purchase requires procurement review, legal sign off, and budget approval. A multi-million euro equipment investment requires a business case, an approval chain, and a post-purchase utilization review. The logic is intuitive: Larger, harder-to-reverse decisions carry more risk, and that risk is managed through structured processes.

Compensation inverts this logic entirely.

A 10,000-person European organisation with an average full-time salary of €70,000 is carrying roughly €930 million in annual labour cost once employer contributions are counted — around €93 million in new hire decisions alone at a 10% hire rate.

Each individual offer decision is small in isolation. But in aggregate, pay decisions across the enterprise represent a capital commitment of enormous scale. Despite that capital investment, hundreds of people across the org are making daily pay decisions under pressure, with inconsistent information, and without a governance layer that sufficiently connects them back to the organisations pay strategy.

There is no CFO in any well-run organisation who would accept that arrangement for any other capital commitment of equivalent scale. Yet most accept it because compensation is not classified as a capital governance function and that has not been seriously examined.

A 10,000-person organisation with an average salary of €70,000 is deploying **€930M billion in compensation annually.**

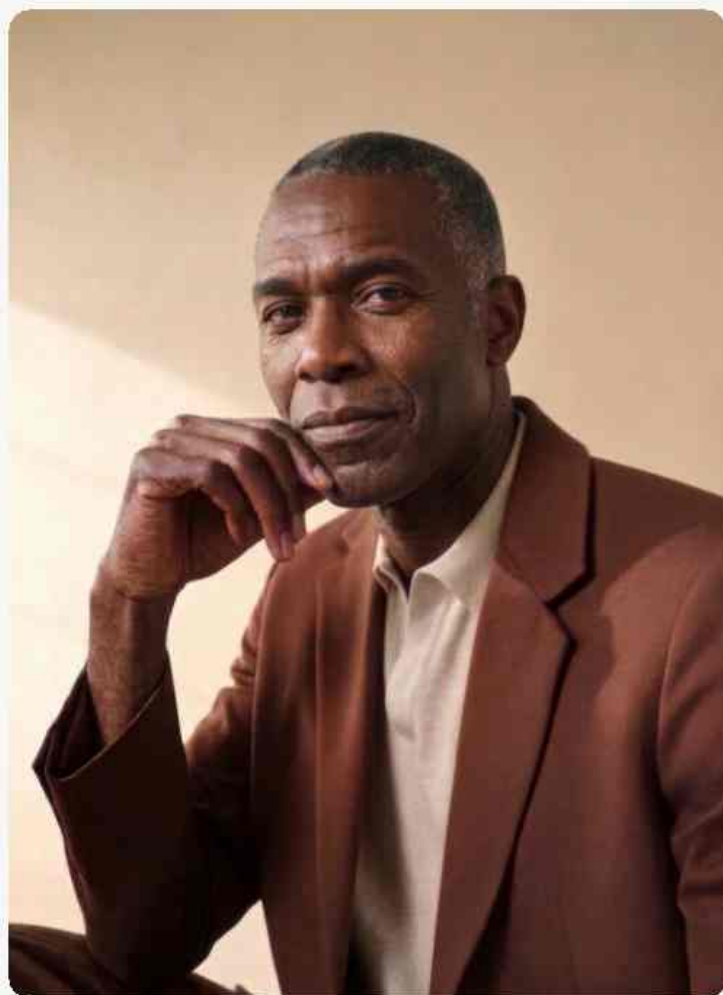


€930M

ANNUAL COMPENSATION DEPLOYED

- EACH INDIVIDUAL
OFFER DECISION IS
SMALL IN ISOLATION

There is no CFO in any well-run organisation who would accept that arrangement for any other capital commitment of equivalent scale. Yet most accept it because compensation is not classified as a capital governance function and that has not been seriously examined.



PRECEDENT: BANKING REMUNERATION RULES AND THE GOVERNANCE OF PAY

When ungoverned pay became a liability, governance became mandatory

Before 2008, how a bank paid its people was its own business. The crisis ended that: bonuses were paid in cash on one year's profit, the losses from the same deals showed up years later, and no rule existed to take the money back.

The EU wrote pay into the bank rulebook. Under the Capital Requirements Directive, a bank has to put its pay policy in writing, give a board committee the job of overseeing it, and name the people whose decisions can put the bank at risk. Those people get their bonuses in installments over four to five years, and the bank can take the money back if a loss shows up later. Their bonuses are capped at one year's salary, or two if shareholders vote for it. Pay data goes to the regulator. A later revision added that the policy has to be gender neutral.

Banks fought the cap hard. The rest went through with far less resistance. A written policy, a committee, and deferred bonuses cost less than the alternative, which was pretending pay could not sink a bank.

Outside of banking, most organisations have no auditable process for how compensation decisions get made, no controls over drift between pay policy and practice, and no consistent data layer. The cost is invisible until it surfaces in a claim, in a reported gap that cannot be explained, or in an inability to attract and keep the people the business needs.

“My goal is to remove a lot of the discretion that exists today in making pay decisions. How do we serve up a proposal that is valid, credible, and that people leaders can buy into, to help us eliminate the discretion that causes other issues down the line.”

— Vice President
Total Rewards

The most common objection to the gap between pay policy and practice is that compensation is already governed: there are collective agreements, negotiated increases, and approval chains. This is true, but it is not complete. It misses another, arguably more critical, type of governance. Salary structures govern the envelope. They do not govern the decision made within it: which pay group a role belongs to, how much prior experience to credit, and what to pay on top of the scale.

Those three choices are typically made by three different people, at different points in the process, with only partial sight of one another's judgment. The recruiter closing a candidate with a competing offer decides the supplement under time pressure, often without a full view of internal equity and without a record of why. That supplement is permanent: it compounds through every collectively agreed increase, and when paid long enough, it becomes an entitlement that cannot be withdrawn.

Processes that exist today catch boundary violations. They do not govern the quality, consistency, or cost of the decisions made inside those boundaries, before the pay decision happens. That is where the value leaks. The goal is not to completely strip judgment from pay decisions; discretion can be a legitimate leadership tool. It is to give that judgment better inputs and a record, so consistency improves without reducing every decision to a formula.

The governance gap isn't a data problem. It's an infrastructure problem.

Budget governance is not decision governance.

The structural problem has three faces. The CFO owns the total compensation budget but not the quality of individual decisions made within it. The CHRO owns HR processes and employee outcomes but has rarely had the infrastructure to act as a capital steward. And where workers' representatives exist, they have a formal say over how pay differences are justified but no part in making the decisions they are asked to accept. The result: no one owns pay integrity at the level where value is created or lost.

The data that would surface this gap already exist in most organisations. Compa-ratio is tracked. Position-in-range analysis gets run. Offer placement rates can be pulled. These diagnostics are primarily used to calibrate the annual increase budgets and shore up the design of compensation frameworks.

What they're not used for is steering individual decisions at the moment they're made. A manager allocating discretionary increases sees their own team and their own budget,

not how their distribution compares with the same call being made elsewhere. A recruiter extending an offer sees the range, not where the offer lands against the people already doing the job, or what the last several offers in that role looked like. The analysis happens after the fact, and the findings feed back into range design and budget calibration, not into the next decision.

The governance gap isn't a data problem. It's an infrastructure problem. The guardrails that compensation policy intends to enforce are not strong enough to change behavior at the point of decision, which is the only moment that matters. Better analysis of historical decisions produces better frameworks. Better frameworks, without enforcement at the point of decision, produce the same drift.

CFO

- ✓ Owns the total compensation budget
- ✗ Does not own the quality of people decisions

THE ACCOUNTABILITY GAP

CHRO

- ✓ Owns HR processes and employee outcomes
- ✗ Lacks infrastructure to act as a capital steward



REASONS FOR PAY DIFFERENCES
MUST BE ESTABLISHED JOINTLY

WORKER REPS

Co-determines how pay is structured and applied, not individual offers, raises, or promotions.

The guardrails that compensation policy intends to enforce are not strong enough to change behavior at the point of decision, which is the only moment that matters.

Better analysis of historical decisions produces better frameworks.

Better frameworks, without enforcement at the point of decision, produce the same drift.



PART II

How ungoverned decisions compound



The cost of one wrong decision is much bigger than what you paid at the time.

The financial case for pay governance is not about the cost of any individual bad decision. It is about compounding. Pay decisions behave like capital investments: the error made at origination does not stay bounded at the value of the original mistake. It becomes the base on which every subsequent decision is calculated, and the cost grows with every cycle.

Here are three ways that plays out:

MECHANISM 1:

Offer mispricing as a structural drag on payroll

MECHANISM 2:

Annual pay review— most governed, least effective

MECHANISM 3:

The missing feedback loop

MECHANISM 1

Offer mispricing as a structural drag on payroll

Approximately 30% of new hire offers land above the organisation's internal pay equity range by roughly 8%, according to patterns observed across multinational enterprise organisations. By "above equity range" we mean above what comparably qualified incumbents in the same role earn, not outside the posted salary band. Blended across all hires, that is roughly a 2.4% new-hire premium, a well-documented external-hire dynamic (IZA Discussion Paper 5538; Bidwell, 2011). The governance failure is not that the premium exists, but that it goes unsized, unrecorded, and uncorrected, so it compounds invisibly. At the moment the offer is extended, the cost looks modest — an €5,600 premium on a €70,000 salary. Finance teams note it as normal variance within the hiring budget and move on.

What those teams are not tracking is the compounding effect. Wages and salaries across the EU have risen about 3.4% a year over the past decade. So an 8% excess on a €70,000 salary is not €5,600. It is €5,600 in year one, plus €5,790 in year two, plus €5,987 in year three, accumulating to nearly €30,000 over a five-year tenure. Five years is conservative: 64% of employees in the EU aged 25 and over have been with their employer at least that long. All from a single offer decision that took 15 minutes and has long since been forgotten.

Multiply that across a 10,000-person organisation running 1,000 annual hires with a 30% overpay rate, and what looked like normal variance becomes a capital efficiency problem. One that finance teams are already paying for, invisibly, in every payroll cycle.

EXCESS PAYROLL COSTS PER EMPLOYEE
ACROSS A FIVE-YEAR TENURE

€30,000

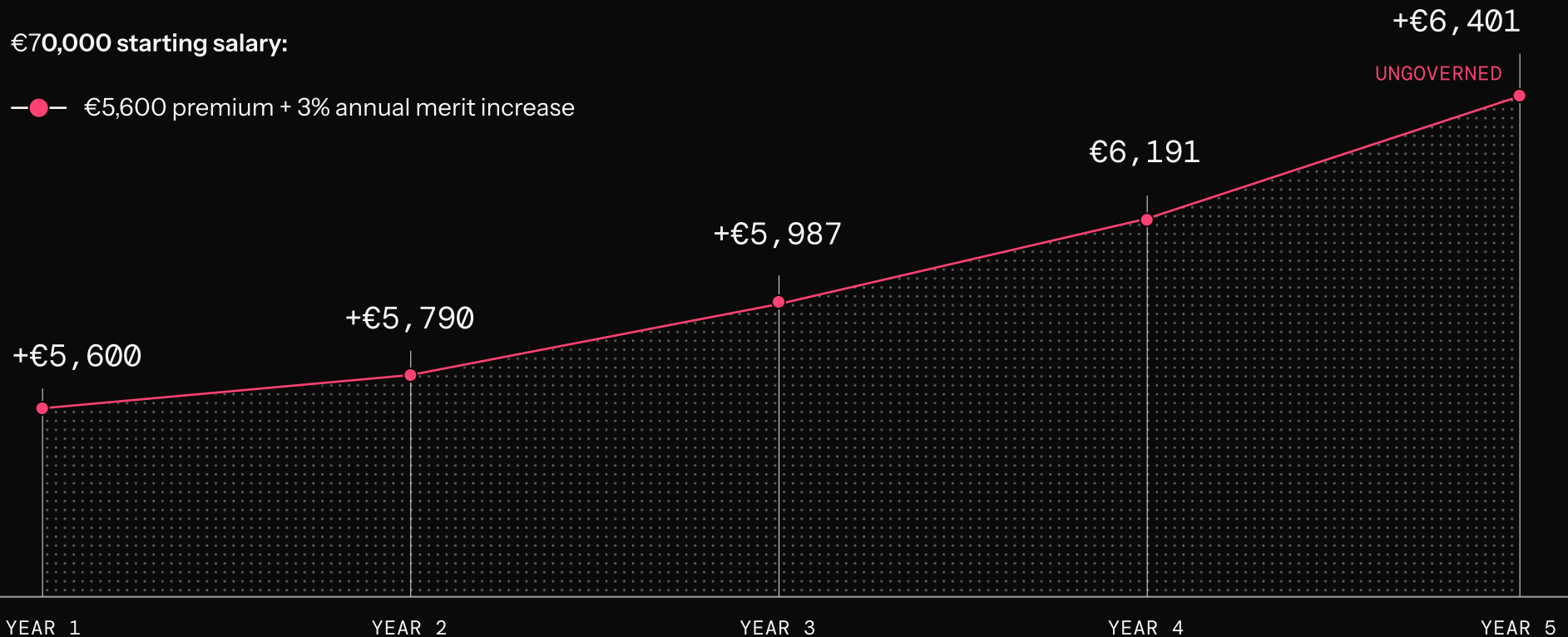
The compounding effect of ungoverned pay decisions

~€30,000

EXCESS PAYROLL COSTS PER EMPLOYEE
ACROSS A FIVE-YEAR TENURE

€70,000 starting salary:

—●— €5,600 premium + 3% annual merit increase



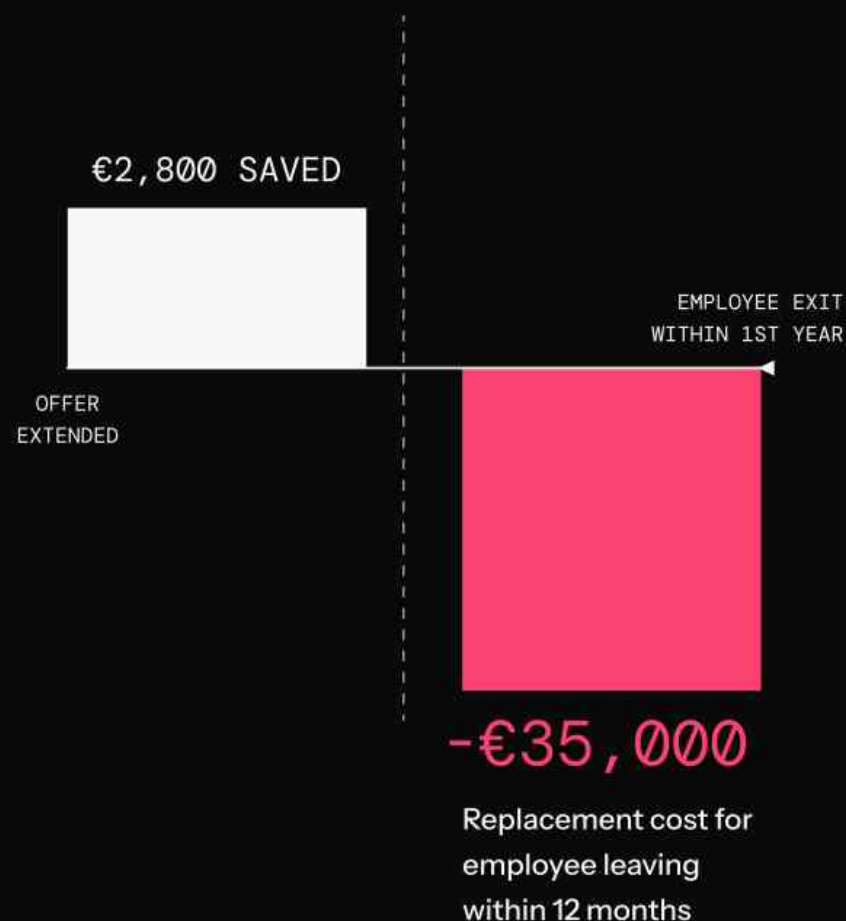
“Leaders often make exceptions, saying, ‘I need this hire yesterday, I’ll pay whatever it takes.’ That may solve the short-term problem, but it creates long-term issues. They need transparency into the ripple effects of their choices.”

— Director, Global Compensation Strategy & Governance

A €2,800 "saving" at offer shows up in every report until it is fixed, or becomes €35,000 to replace them

The opposite problem, underpaying new hires, carries a different risk, and the EU Pay Transparency Directive is what makes it expensive. Roughly 10% of new hires come in underpaid relative to internal equity, by around 4% of salary. On a €70,000 role that saves €2,800 a year on paper. What it creates is a pay difference that has to be justified every year until it is corrected, and may not be justifiable at all.

Employees do not have to wait for the annual report to ask. Under Article 7 of the EU Pay Transparency Directive, an employee can ask for the average pay level, broken down by sex, for workers doing the same work or work of equal value. Even with delays across the European Union on transposing the Directive, employees are not waiting to ask about their pay. A quarter of the over 100 European enterprises we surveyed in July 2026 had already answered requests in countries where the law had not yet taken effect.



More often nothing was wrong with the offer. Pay that was set correctly at hire falls behind as the market moves and the annual increase does not keep pace. The next person hired into that role comes in at the current rate, and under the same article nothing in their contract can stop them saying so. The incumbent finds out from the person sitting next to them.

A pay system that let this offer through has let others through. The underpayment we see averages 4% on a single decision, and it does not take many of those, falling more often against women than men, before a category's gender gap passes 5%. A gap that size the employer cannot explain and does not fix within six months triggers a joint pay assessment, where the reasons are agreed with workers' representatives. They are owed for the category, but they can only be built from the records of the individual decisions behind it, and for many of those no record exists.

When someone leaves the gap no longer needs explaining, but there is a cost to replace them. SHRM puts replacement cost at 50 to 200% of annual salary for professional roles. In Europe even that floor is conservative: an American gives two weeks' notice, a European typically gives a month, a French professional three, and senior contracts in Germany and Italy longer again. The replacement then serves their own notice before starting, and in co-determination markets the appointment and its grading have to clear the works council

If the employee stays, the underpayment appears in the pay-gap report every year until someone corrects it. If the employee leaves, the company pays to replace them, and on a €70,000 salary that is at least €35,000, about twelve years of the €2,800 a year it would have cost to fix the pay.

MECHANISM 2

Annual pay review— most governed, least effective

The annual pay review is the moment CFOs expect pay strategy to be executed and CHROs expect performance to get rewarded.

In much of Europe, a large part of each year's pay increase is set before the employer decides anything. A collective agreement sets a raise, indexation adds inflation, and a seniority step in the grid adds a fixed amount for another year served. The employer decides only what goes on top.

That leaves a small budget for individual decisions. Where a collective agreement applies, part of even that budget is distributed by rules the employer did not write. Any difference between two people's raises has to come out of what remains. Paying a top performer more means paying someone else less from a budget that is already small. The agreed increase cannot be cut, and where co-determination applies, the rules for splitting the remainder were settled with the works council in advance.

So pay compresses toward the middle. Even where no agreement applies and the whole budget is the employer's, it compresses the same way, because a manager with a small pool would generally rather give everyone the same than explain to one person why a colleague got their share.

The structural problem deepens because the same budget is expected to do several jobs at once. It has to close market competitiveness gaps, absorb inflation and fund equity corrections, on top of differentiating performance.

What drives pay progression is no longer a private matter. Under Article 6 of the EU Pay Transparency Directive, employees are entitled to know the criteria that determine their pay and how it progresses, and those criteria have to be objective and gender neutral. In our [July 2026 survey](#), fewer than half of European enterprises had shared them.

Criteria that were never written down cannot be applied consistently, and inconsistency has to be paid for. For organisations running without continuous governance, the cost of correcting what accumulates runs up to 1% of total payroll annually. This spend includes equity adjustments, market corrections, and retention investments that finance teams cannot trace back to the decisions that created them, because those decisions were never documented in a way that would allow the connection to be made.

“I think this is one of the biggest challenges because you’re just constantly making the problem worse. You fix it all, and then throughout the pay cycle, pay changes or hiring, you’re right back to where you started.”

— Group Reward Director
Global business process outsourcing (BPO) and professional services provider

MECHANISM 3

The missing feedback loop

Most organisations cannot answer this simple question: Did the compensation decisions made in the last year produce the retention, performance, and engagement outcomes they were meant to drive?

When we surveyed European enterprises in July 2026 on what makes this work difficult, two answers came back at the top, and neither was about reporting. The first was pay decisions made without a documented rationale. The second was inconsistency across teams in how those decisions get made.

This is not only a data availability problem. It is a governance architecture problem. Pay decisions and talent outcomes are recorded in separate systems, with no methodology connecting them. As an example, an individual increase that was meant to reward a high performer, retain key talent, or close an unexplained pay gap produces an outcome in the following 12 months but often that outcome is never traced back to the decision. In the UK the CIPD finds the same gap: only 17% of employers calculate the cost of labour turnover, and just 12% collect data to evaluate and improve their retention initiatives. The organisation learns nothing from the investment.

Contrast this with how any other major capital deployment is evaluated. Capex is tracked against utilization and return. R&D spend is tracked against product output and time-to-revenue. Marketing spend is tracked against pipeline influence and conversion. Compensation—typically the largest single investment most organisations make in their people—is tracked against total payroll spend and average increase percentage. Not against outcomes. Not against the strategy it was meant to serve.

PRECEDENT: CREDIT RISK AND THE BASEL FRAMEWORKS

Risk doesn't have to be eliminated. It has to be visible.

Before the Basel frameworks, banks managed credit risk inconsistently and opacity compounded across institutions. The frameworks created standardized risk measurement, capital requirements, and disclosure standards. The governance insight: the point wasn't to eliminate risk. It was to make risk visible and managed.

Pay drift isn't about bad intentions. It's about decisions made at scale with no shared framework, accumulating into material exposure. Pay governance creates the equivalent of a credit risk dashboard for your largest operating cost: the same decision model, applied consistently, producing different results based on legitimate inputs, against a standard that makes the organisation's exposure knowable.

What one governed pay decision is worth

Every compensation decision has a lifecycle. The number set in a single moment — an offer, a promotion, an annual increase — follows the employee through pay progressions, and through the decision to stay or leave. And its effects accrue for years.

Modeled on Syndio's cross-industry client work and calculated on European inputs, the value of governing a pay decision in real time, rather than leaving it to discretion, runs between €7,587 and €16,489 over that lifecycle. This encompasses four value categories — spend, performance, speed, and risk — applied to hiring, promotion, and individual increases.

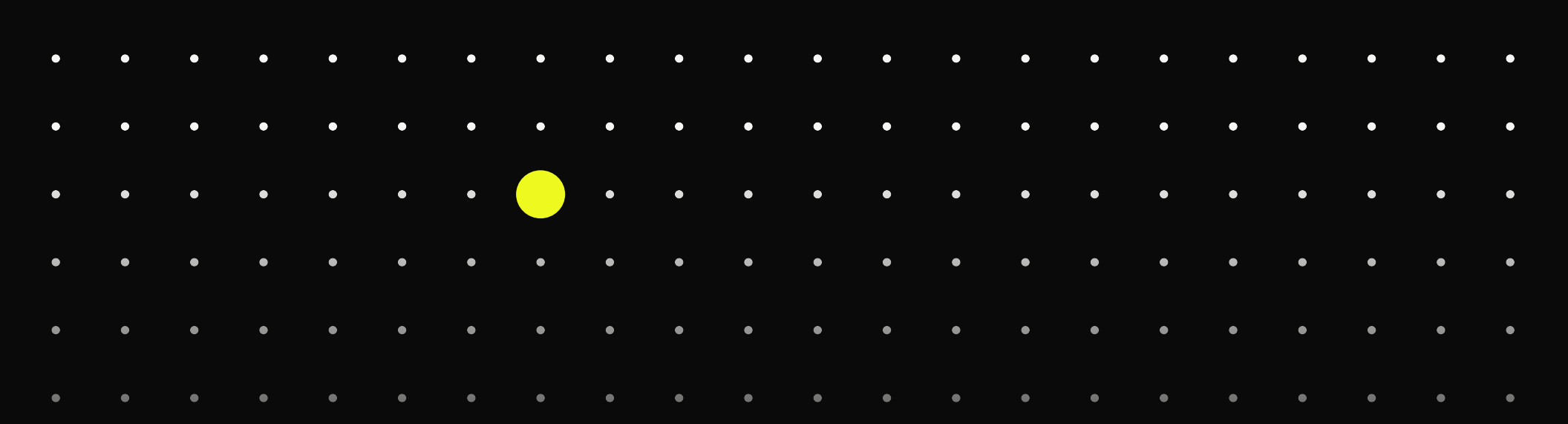
What the range reflects: The lower bound (€7,587) assumes governance reduces the underlying problem by roughly half; the upper bound (€16,489) assumes near-elimination. Both count direct, hard costs only, so the figure is deliberately conservative. Per decision, the number may look modest. Multiplied by the thousands of pay decisions a large organisation makes each year and carried across an enterprise workforce, it is the difference between a governed and ungoverned compensation, measured in tens of millions of euros.

€7,587 —
€16,489

LIFECYCLE VALUE OF A SINGLE
WELL-GOVERNED COMPENSATION DECISION

The lifecycle value is based on four sources:

- The overpayment avoided at offer, and every raise calculated on top of it.
- Remediation and corrections that never have to happen, and pay differences that hold up when examined, so no joint pay assessment follows.
- Voluntary attrition that is avoided when pay matches the work and the market.
- The hours managers and recruiters get back, and the shorter works council consultation, when the decision arrives with its reasons attached.



~€76M–€165M

RECOVERABLE ANNUAL VALUE FOR AN ILLUSTRATIVE 10,000-
PERSON ORGANISATION, ACROSS ALL ANNUAL PAY DECISIONS
(INDIVIDUAL INCREASE, PROMOTION, AND HIRING)*

How we get there: value per governed pay decision (€7,587 conservative to €16,489 stretch) × roughly 10,000 pay decisions a year, about one per employee through the annual pay review, plus promotions and new hires. Assume a €70,000 average base salary and a discrepancy that persists five years. $€7,587 \times 10,000 \approx €76M$; $€16,489 \times 10,000 \approx €165M$. These figures cover the cost of correcting pay going forward. They exclude Article 16 of the EU Pay Transparency Directive, which requires member states to give workers who have sustained damage the right to claim and obtain full compensation, including back pay. Member states may not cap it.

A collective agreement does not cut the number of pay decisions an employer makes. How much of the annual increase is set by agreement and how much is decided inside the organisation varies by country and by population. Every offer, raise, and promotion is still decided one at a time, and the agreement only narrows how far each one can go. Every discretionary choice is still a pay difference that has to be explained. Where it cannot be, the difference goes to a joint pay assessment and a correction across the category, which is accounted for in the calculation.

PART III

Two leaders, one blind spot

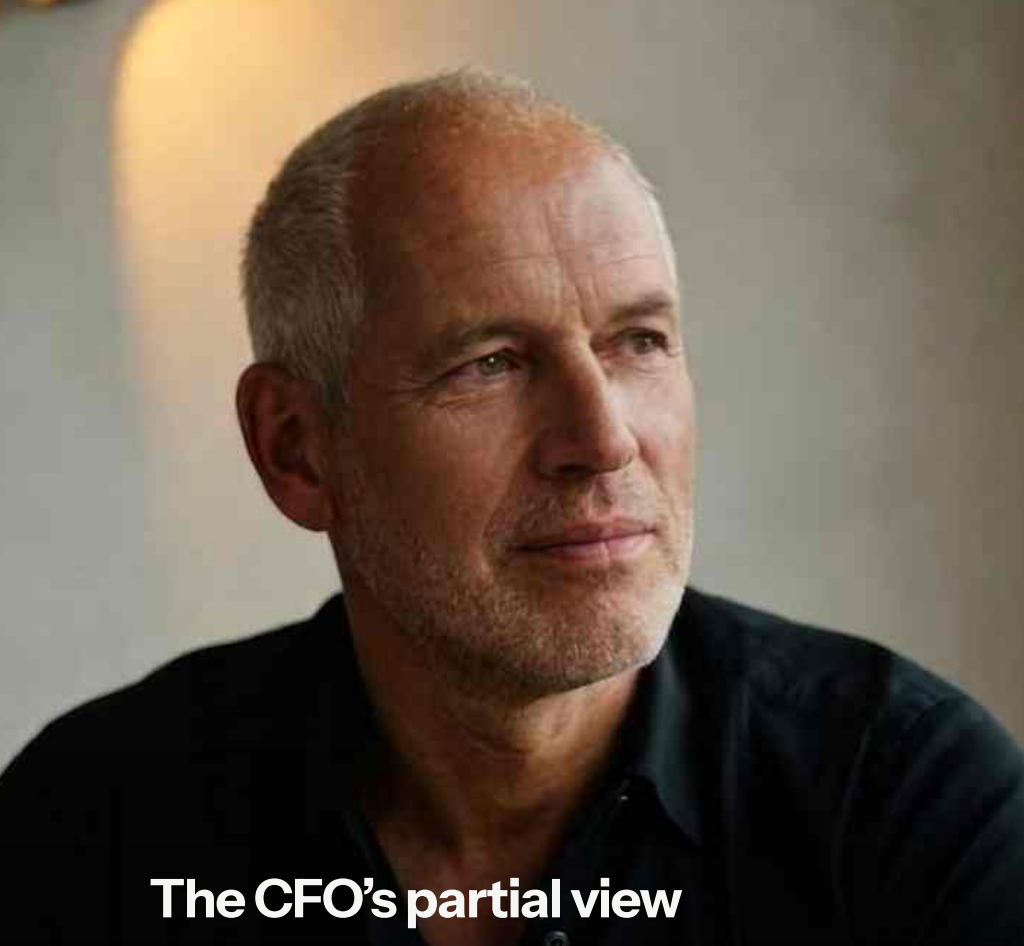
Why the CFO and CHRO are flying blind together

The governance gap falls between two owners. The CFO has visibility into total compensation spend and its aggregate financial performance. The CHRO has visibility into total compensation spend, people outcomes, engagement patterns, and HR process quality. Both have partial sight of the same underlying problem. Neither has the full picture of where spend goes and the ROI of that investment.

The result is a dynamic that most compensation leaders recognize: pay consistency is classified as an HR compliance matter and budgeted accordingly. The financial governance implications, compounding overpay, retention economics in strategic talent segments, workforce transformation execution risk, stay in the HR lane. The CFO never sees them in a language that connects to capital performance.

“Are we a pay for performance company? Does our base pay reflect that we are a pay for performance company? It’s interesting to see [the correlation] so low.”

— Director of Executive and Corporate Compensation



The CFO's partial view

A CFO can tell you total compensation expense, average increase percentage, and headcount by function. What a CFO typically cannot tell you: What share of last year's hiring decisions landed within equity range; what the current remediation obligation looks like as a forward-looking liability; or which business units carry disproportionate pay variance that will surface as attrition, compression, or a joint pay assessment within the next eighteen months.

These are capital performance questions. They are not currently answered by any system most organisations have.



The CHRO's partial view

A CHRO can tell you voluntary turnover rates, engagement scores, and the outputs of the last pay equity audit. What a CHRO typically has challenges telling you: Which specific compensation decisions are associated with the departures in the highest-value talent cohorts; what is leading to the pay decision variance in the roles most central to business strategy; or whether last year's pay review consistently and effectively reinforced the performance outcomes it was designed to reward.

The bridge: metrics that translate

Four metrics, applied consistently, translate the pay governance problem across the CFO/CHRO divide and make it visible in the language both leaders can act on.

01 Offer-to-range placement rate

Measures the share of new hire decisions landing within the organisation's defined equity range. This is both a compensation quality metric and a capital efficiency metric: a rate below target means the organisation is paying a structural premium it has not chosen.

02 Remediation spend as a percent of total payroll

Makes the cost of ungoverned decisions visible as a recurring line item. Most finance teams currently absorb this cost as normal variance. Named and tracked, it becomes a governance cost they can manage.

03 Pay decision variance across similarly situated roles

Measures the distance between what the organisation's compensation strategy intends and what individual decisions actually produce. The gap between those two numbers is the governance gap — quantified, addressable, and reducible with the right infrastructure.

04 Unexplained pay gap by category of workers

Measures how many of the organisation's categories are above the 5% threshold with no objective, gender neutral explanation. It is the only one of these metrics with a statutory consequence attached: above 5% and unexplained, a joint pay assessment follows

PRECEDENT: DATA PRIVACY AND GDPR

When regulation shifts the burden of proof, documentation built after the fact doesn't count.

Before data privacy regulation, companies collected and used personal data with minimal structure or accountability. The harm accrued slowly and diffusely — no single moment of failure, just compounding risk. GDPR changed the test. Under its accountability principle it is not enough to avoid a breach. The organisation has to be able to demonstrate that it complied, and that turned privacy into an owned function with records kept as a matter of routine. Privacy governance didn't exist as a formal function until regulation forced it. Pay governance is following the same arc.

Pay data exists across every major system an organisation runs — HRIS, compensation planning tools, performance platforms, equity grant records — with no governing layer ensuring that decisions made across those systems are consistent, equitable, or defensible. Regulation is now closing that gap.

The EU Pay Transparency Directive requires employers to explain pay gaps of 5% or more, assessed on work of equal value, and to give employees, on request, their own pay and the average pay by sex for their category of work.

The records that matter are the ones created at the moment of decision, not reconstructed in response to a claim or an assessment. Organisations that have not been building governed, auditable decision records cannot manufacture that documentation after the fact. Under the Directive the burden has already moved: once a worker establishes facts suggesting discrimination, it is for the employer to prove there was none. The window to build that infrastructure before it is needed has closed

PART IV

What governance makes possible

The feedback loop that never existed.

The value of pay governance is not only what it prevents. It is what it makes visible and improvable for the first time.

An organisation with a decade of ungoverned compensation decisions has a large body of data. It knows what it paid. It does not know why those decisions were made, whether they were consistent with each other or with the organisation's stated strategy, or what outcomes they produced. The data exists without the intelligence to use it.

An organisation with a decade of governed compensation decisions has something categorically different: a record of what was decided, the reasoning behind each decision, and the business performance and talent outcomes it produced.

That record is a decision intelligence asset. It tells the organisation which offer ranges actually connect to retention — not the market benchmark, but the specific premium that works for their workforce, in this industry, in this geography. It tells the CFO which roles have pay levels that are no longer connected to performance or retention outcomes. It tells the CHRO where the pay strategy is working and where it is accumulating risk that will surface in the next attrition cycle.



Governing every pay decision delivers tangible outcomes.

A 100,000-employee health insurer deployed pay governance directly into its recruiting workflow, reaching more than 200 recruiters with real-time equity guidance at the point of offer. The financial and talent outcomes together: a 6% decrease in time to fill, a 6% increase in offer acceptance rates, and a 25% reduction in remediation costs (Syndio customer engagement; directional). The last figure is the most commonly cited, but it is not the most important one. The offer acceptance improvement is. Governance at the point of offer does not just reduce overspend — it produces offers that candidates accept at higher rates precisely because those offers are calibrated to what the role and the market actually require, rather than inflated by recruiter discretion or compressed by inconsistent frameworks. Policy-conforming offers that candidates still accept are the signal that governance is working.

A 70,000-employee global technology company managed continuous pay equity governance across a workforce that tripled in size. Average remediation costs remained flat through that growth. Once compensation was corrected for an individual, it stayed corrected through subsequent pay reviews, promotions, and role changes — the signature of a system that prevents problems from recurring rather than rediscovering them annually.

The efficiency dimension compounds both effects. Replacing manual lookups, spreadsheet reviews, and email chains with a single governed workflow reduced pay decision time by more than half, from an average of 4.5 hours to under two. In co-determination markets there is more of that work, not less: the same decision also has to produce a grading rationale the works council will accept and a record of the criteria applied.

That time recaptured is not just an HR productivity gain. It is a faster decision to a candidate considering multiple offers and it is decision capacity returned to the managers and recruiters who were spending it on process rather than judgment. A grading that comes with its rationale attached moves. One that arrives as a number to be explained later does not.

Across a broad base of organisations using continuous pay governance, the pattern is consistent: more than 70% reduction in remediation costs. The mechanism is not better gap detection. Governance stops gaps from forming in the first place, which means the retained employees, the accepted offers, and the avoided claims are all downstream of the same upstream change.

What the data shows

The organisations producing the strongest business outcomes share a common pattern: they stopped treating pay equity as a periodic audit exercise and embedded governance into compensation decisions themselves — the offer, the pay review, the promotion conversation, the retention discussion. The returns show up on multiple lines simultaneously, and that co-occurrence is not coincidental. It is what a well-functioning governance system produces.

100,000-employee health insurer

6%↓

TIME TO FILL

6%↑

OFFER ACCEPTANCE

25%↓

REMEDATION COSTS

70,000-employee global technology company

0%

REMEDATION COSTS REMAINED
FLAT AS WORKFORCE TRIPLED

2x

TIME OF PAY DECISIONS
REDUCED BY MORE THAN HALF

“We can see potential equity risk and downstream remediation costs the moment an offer is created.”

— VP and Head of Total Rewards
Cloud-based technology platform provider

The compounding advantage

There is a form of organisational value that standard ROI frameworks undercount. It accrues not from any single decision but from the coherence of many decisions made against a consistent framework over time.

An organisation with 10,000 governed compensation decisions in its history has something no competitor can replicate by deploying a new tool this quarter: institutional intelligence about its own workforce, accumulated through governed decisions, that makes every subsequent decision more precise and more defensible. The general-purpose benchmarking survey describes how the market pays. The governed decision record describes how this organisation pays, why, and what outcomes followed.

That intelligence deepens with every decision that runs through a governed framework.

PRECEDENT: SUSTAINABILITY REPORTING AND THE GOVERNANCE ARC

**Compliance becomes operational discipline.
Operational discipline becomes a competitive advantage.**

For years companies published a narrative section on environmental and social performance, in whatever format they chose, checked by no one. The Corporate Sustainability Reporting Directive (CSRD) changed what kind of reporting: specific numbers, signed off by an external auditor, sitting in the annual report beside the financial statements. That is where the discipline comes from. You cannot have a number audited unless you can show where it came from. The scope has since narrowed. The standard has not.

Pay reporting has already followed suit. The sustainability standards require companies to publish their gender pay gap and what their highest paid employee earns relative to the median employee. The Pay Transparency Directive then asks for more of the same, broken down by the category of worker. Pay equity legislation gave organisations a reason to audit gaps and document decisions where no systematic practice had existed. Some organisations are now going beyond point-in-time, historical audits, building governance infrastructure to make consistent, defensible pay decisions continuously. The operational discipline case is now visible in the data: less remediation spend, faster decisions, less drift between policy and practice.

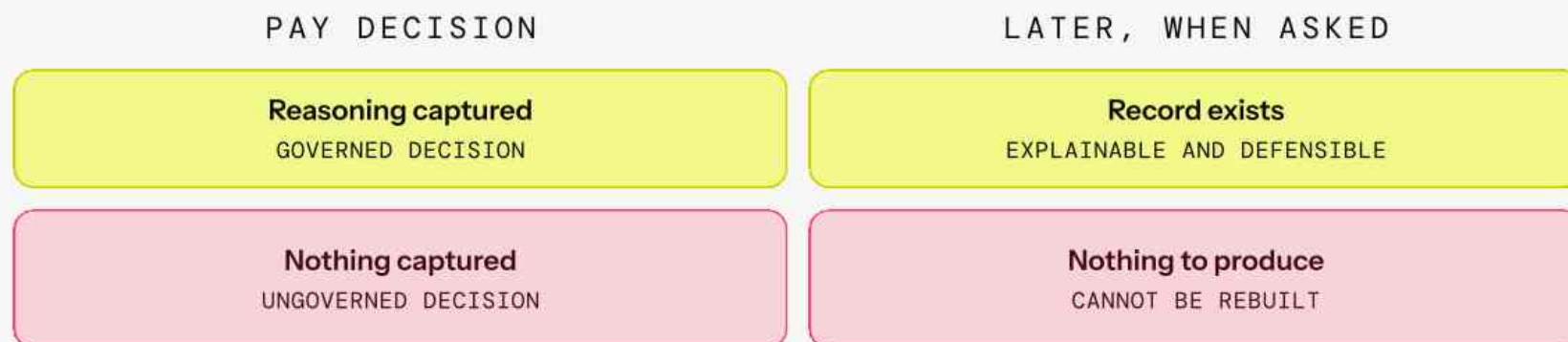
The strategic case is here. AI is dissolving roles and creating new ones with no precedent, and every one of those shifts is a pay decision. Organisations without governed pay infrastructure will set those decisions on urgency instead of logic. The ones with it will govern their largest cost through the most significant workforce change in a generation.

The arc is consistent. Compliance created the focus. Operational discipline is making the business case. Strategic value makes it imperative.

PART V

The case for acting now

Regulatory and Transparency Requirements



The cost of waiting is not neutral

Organisations building governance infrastructure now are insulated from two simultaneous forces: global regulatory pressure and a talent market that increasingly rewards employers who can explain their pay decisions.

The EU Pay Transparency Directive required transposition into national law by 7 June 2026. Most member states missed the deadline. One provision matters more than the rest: where an employer has not met its transparency obligations, the presumption in any gender pay discrimination proceeding moves to the employer to demonstrate that no discrimination occurred. Documentation created at the point of decision is the only thing that satisfies this. It cannot be reconstructed after the fact. The first reports are due 7 June 2027. The pay decisions being made in 2026 are what those reports will contain.

The European Commission's impact assessment put the cost of a joint pay assessment at between €1,180 and €2,266 for an employer of 250 or more. What follows it is another matter. Take a category of 250 people averaging €70,000, with a 5% gap affecting 40% of them. Raising that group to parity costs around €357,000 a year, more than €1 million over three years, and it does not stop there. Article 16 provides for full recovery of back pay, with no upper limit. The assessment is cheap. The answer it forces is not.

Workers' representatives already have a say in how pay is structured. Usually that influence is advisory rather than binding. Germany goes furthest: a works council co-determines the pay scheme itself, and where one exists the employer cannot introduce or change it without agreement. Collective agreements set the scale and works councils co-determine how it is applied. Neither decides the supplement paid on top. The Directive reaches that layer: the reasons for a pay difference must be established jointly with workers' representatives, and a difference they will not accept as justified is one the employer has to close.

The United Kingdom sits outside the Directive, and the pressure there arrives differently. In a claim estimated at £1.2 billion, an employment tribunal ruled in Marc 2026 that several female retail roles at a major UK supermarket were

of equal value to male depot roles, and the employer must now prove the pay differences were explained by factors unrelated to sex. That defense rests on the reasoning recorded when the pay was set. Where it was not recorded, it has to be reconstructed years later, under scrutiny.

The Directive is transposed differently in every member state, with different roles for works councils, different response windows, and different documentation expectations. An organisation operating across multiple EU jurisdictions is not managing one compliance obligation but a matrix of them, on different timelines. Treating each as a discrete compliance event means rebuilding the same analysis in every jurisdiction, every cycle. Building decision governance once is what makes the response routine.

The AI inflection point

Organisations are adopting AI-powered compensation tools at an accelerating rate. The efficiency gains are real. But AI in compensation carries a specific risk that general-purpose tools are not built to manage: a model calibrated on historical data will reproduce whatever patterns exist in that data. If an organisation's historical pay decisions reflect inequity, feeding that data into an AI system without a purpose-built governance methodology does not solve

the problem. It automates data pollution at a speed and scale that makes the resulting disparities harder to detect and more expensive to remediate.

In the EU this is not only a question of AI model quality. Under the EU AI Act, systems used to make decisions affecting the terms of employment are high risk, and starting in December 2027 employers deploying them must assign human oversight to competent staff and retain the system's logs for at least six months. An employee affected by a decision that significantly affects them can also require a clear explanation of the part the system played in it.

Adoption is also not a purely internal decision. Starting in 2027, before a high-risk system goes into service the employer has to tell the affected workers and their representatives. That obligation is still ahead. The one that applies today is closer to home: in co-determination markets, a system capable of monitoring performance cannot go live without the works council's agreement. Systems that can show their reasoning clear that bar. Systems that only produce a number do not.

AI is also changing jobs faster than pay systems can keep up. A company closing roles, opening ones with no market rate to copy, and moving people into work that did not exist two years ago is making pay decisions at scale. In the EU each of those decisions also needs a grade, and where workers' representatives exist the criteria for judging the value of work have to be agreed with them. A new role that pairs a person with an AI tool has no survey to look it up in.

PRECEDENT: AI GOVERNANCE

Ungoverned outputs at scale create liability before anyone sees it coming.

Companies are building AI governance functions because they have learned that ungoverned model outputs create legal exposure and reputational risk that accumulate before becoming visible. The parallel with pay governance is nearly exact: both involve decisions made at scale, often through opaque processes, with downstream harm that compounds before any single event triggers a response. In the EU the two are converging: when AI is involved, the AI Act and the Pay Transparency Directive both place documentation duties on pay decisions. CFOs and CHROs building AI governance functions should be building pay governance in parallel. The architecture is the same.

“ChatGPT is coming back with wildly incorrect information half the time. And people are just creating their own little tools to level jobs and do comp work without any framework behind it.”

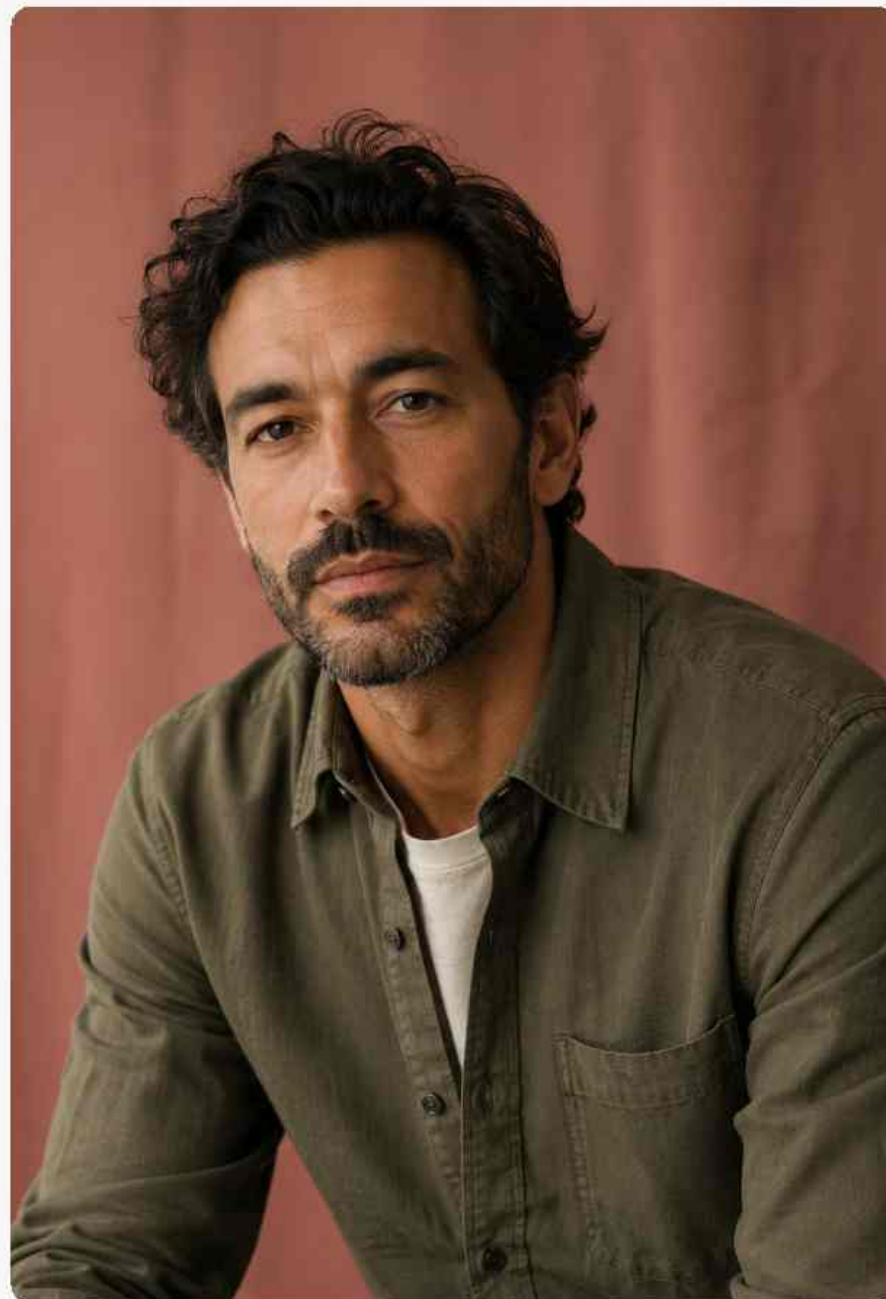
— Senior Director, Global Pay & Market Insights
Global leader in interactive and digital entertainment

The cost of waiting

The organisations that delay will build pay governance infrastructure under regulatory pressure, against a historical decision record that is flawed, at higher cost, with less time to correct what is already in the system. They will also face the compounding effects described in this paper — accumulating with each pay review, each hiring wave, each workforce transformation — with no mechanism to interrupt them.

The costs documented here are being paid today, in payroll cycles that have already run, in employees who have already started looking, in compliance exposure that already exists.

**They are not future risks to be managed.
They are current costs to be stopped.**



CONCLUSION

The one question

Every organisation in this paper started where most are today

a pay philosophy on paper, decisions made under pressure, and a remediation cycle paying to fix what better decisions would have prevented. The shift to pay governance is not primarily a technology decision. It is an infrastructure decision.

Your organisation has a governance framework for every significant capital commitment it makes. For the one that compounds most directly into organisational performance — made tens of thousands of times a year, by managers with incomplete information, under competitive pressure — does that framework exist?

And if it doesn't, what has that been costing you?

See what pay governance is worth at your scale

Every organisation carries a version of these costs.

Most have never had a way to size them.

Interested in what this looks like at your scale?

[Request a custom briefing →](#)

Methodology

The Syndio Cost of Ungoverned Pay Decisions model was developed by Syndio's research teams to quantify the aggregate financial impact of the compensation decisions — hiring, promotions, pay reviews, and other pay adjustments — that organisations make every day, at scale. Its inputs draw on published labour-market benchmarks, peer-reviewed research, and Syndio's cross-industry client work.

The model groups value into four categories: Speed, Spend, Risk, and Performance. Seven independent levers are isolated within each category; and each lever is sized the same way: per-decision impact, multiplied by annual decision volume, scaled to the size of the organisation.

Every lever is bracketed by two scenarios. A conservative case assumes reducing the modeled problem by roughly half; a stretch case assumes near-elimination. Headline figures use the conservative to the stretch case, and only direct, hard costs are counted, so the totals are deliberately understated.

The model is designed to make the return on better pay decisions transparent and defensible. Every figure is a benchmark-based default, meant to be replaced with a company's own hire rates, pay distributions, and pay review data, turning an illustrative framework into a precise, organisation-specific business case.

References

1. Eurostat, Annual national accounts — evolution of the income components of GDP. Compensation of employees as a share of GDP: 48% across the EU; above half of GDP in nine member states, highest in Germany at 55.3%. ec.europa.eu/eurostat
2. Eurostat, Labour cost index by NACE Rev. 2 activity, nominal value, annual data (lc_lci_r2_a). Wages and salaries (D11), EU27, NACE B–S, index 2020=100: 3.35% compound annual growth, 2015–2025. ec.europa.eu/eurostat
3. Eurostat, Employed persons by job tenure (lfsa_egad). Persons aged 25 and over, EU27: 64% have been with the same employer for five years or more. ec.europa.eu/eurostat
4. Kampkötter, P., & Sliwka, D. (2011). Wage premia for newly hired employees: Theory and evidence (IZA Discussion Paper No. 5538). Institute for the Study of Labour (IZA). <https://www.iza.org/publications/dp/5538> (Later published as Kampkötter, P., & Sliwka, D., 2014.)
5. Bidwell, M. (2011). Paying more to get less: The effects of external hiring versus internal mobility. *Administrative Science Quarterly*, 56(3), 369–407. <https://doi.org/10.1177/0001839211433562>
6. SHRM, Turnover Cost Research. Replacement costs 50–200% of annual salary depending on role level.
7. Charles O'Reilly (Stanford GSB), James Wade (Rutgers), Tim Pollock (Penn State). Longitudinal study of 120 large public companies over five years. Pay inequity associated with 18% higher turnover among general managers.
8. Harvard Business School, “Rethinking Measurement of Pay Disparity and its Relation to Firm Performance.” Explained pay differences positively correlated with firm performance; unexplained differences negatively correlated.
9. Mercer, 2024 Global Pay Transparency Report. Fair pay identified as the second-most important reason employees stay with their organisation.
10. Aon, 2024 Pay Transparency Readiness Study. 84% of organisations that ran a pay equity analysis found gaps; only 34% added funding to correct them.
11. SHRM, 2023. Compensation dissatisfaction: second-leading driver of voluntary turnover after lack of career growth.
12. Aon, 2024. New hire salary inflation and pay compression dynamics.
13. Syndio, EU Pay Transparency Directive Readiness Survey, July 2026. Over 100 European enterprises across 11 sectors. Share of enterprises that have published pay criteria; right-to-information requests received ahead of national transposition; reported barriers to governed pay decisions. syndio.io
14. Syndio, patterns across enterprise customer engagements. Overpay rate at offer (~30% of hires, ~8% above equity range); underpayment at offer (~10% of hires, ~4% below equity range); remediation spend (up to 1% of payroll for ungoverned organisations); lifecycle value per compensation decision (€7,587–€16,489 across four value categories: spend, performance, speed, and risk, applied to hiring, promotion, and pay review decisions). syndio.com
15. Directive (EU) 2023/970 (EU Pay Transparency Directive). Transposition deadline 7 June 2026. Article 4 (pay structures on objective, gender-neutral criteria agreed with workers’ representatives); Article 6 (transparency of pay setting and pay progression); Article 7 (right to information; prohibition of contractual terms restricting pay disclosure); Article 9 (reporting, phased by employer size); Article 10 (joint pay assessment); Article 16 (compensation, including full recovery of back pay with no prior upper limit); Article 18 (shift of the burden of proof). eur-lex.europa.eu

References continued

16. European Commission, SWD(2021) 42 final, Executive Summary of the Impact Assessment accompanying COM(2021) 93. Cost of an additional pay assessment estimated at €1,180–€2,266 per employer with 250 or more employees, where pay reporting detects a statistically significant gap. Figures in 2021 prices. eur-lex.europa.eu
17. Directive 2013/36/EU (Capital Requirements Directive), as amended by Directive (EU) 2019/878 (CRD V). Documented remuneration policy, board remuneration committee, identified staff, deferral of four to five years with malus and clawback, variable pay capped at 100% of fixed remuneration (200% with shareholder approval), and gender-neutral remuneration policy (Articles 3(1)(65), 74(1), 92(2)(aa), 94). eur-lex.europa.eu
18. Directive (EU) 2022/2464 (Corporate Sustainability Reporting Directive) and the European Sustainability Reporting Standards. ESRS S1 remuneration metrics require disclosure of the unadjusted gender pay gap and the ratio of the highest paid individual's annual total remuneration to the median. eur-lex.europa.eu
19. Regulation (EU) 2016/679 (General Data Protection Regulation). Article 5(2) accountability principle: the controller must be able to demonstrate compliance, not only comply. eur-lex.europa.eu
20. Regulation (EU) 2024/1689 (EU AI Act), as amended by Regulation (EU) 2026/1744. Annex III point 4(b) (AI systems used in employment decisions); Article 26 (deployer obligations, including human oversight by competent persons, retention of system logs, and notification of workers' representatives and affected workers); Article 86 (right to an explanation of individual decision-making). Obligations for Annex III high-risk systems apply from 2 December 2027. eur-lex.europa.eu
21. United Kingdom. Equality Act 2010 (Gender Pay Gap Information) Regulations 2017, employers with 250 or more employees; Employment Rights Act 2025, s.33, equality action plans; government response on mandatory ethnicity and disability pay gap reporting, 25 Mar 2026. legislation.gov.uk; gov.uk
22. CIPD, Resourcing and Talent Planning Report 2022. Only 17% of employers calculate the cost of labour turnover; 12% collect data to evaluate and improve retention initiatives. Reported in CIPD, "Benchmarking employee turnover," June 2024. cipd.org

About the Author



Shonna Waters, PhD

SVP of Executive Engagement & Insights, Syndio

Shonna Waters, PhD, is Senior Vice President of Executive Engagement & Insights at Syndio. She is an award-winning organisational psychologist with 25 years of experience helping organisations make smarter decisions about people, spanning human capital strategy, performance, decision science, AI transformation, and the future of work. Her perspective is built on a career that has moved between research and practice: she has held executive roles at BetterUp, SHRM, and U.S. federal agencies, and most recently served as co-founder and CEO of Fractional Insights.

Waters holds a PhD in Industrial-Organisational Psychology from the University of Minnesota, is an adjunct faculty member at Georgetown University, and is an ICF (International Coaching Federation) Certified Executive Coach. She is co-author of two books, including *The Coaching Shift*, and her research and commentary have appeared in *Harvard Business Review*, *MIT Sloan Management Review*, and *Inc.*

Her work rests on a core conviction: every business problem is a people problem, and every people problem is a systems problem. That conviction anchors her current focus at Syndio, where she examines how ungoverned pay decisions create measurable risk for the organisations that make them.

About the Author



Derek Hutchinson, PhD

Principal Research Scientist, Syndio

Derek Hutchinson, PhD, is a Principal Research Scientist at Syndio, where he leads research on how pay policies affect organizations and the people in them. He is an organizational psychologist whose work tests whether large-scale workplace interventions deliver what they promise, with expertise spanning organizational culture and occupational health psychology.

Before Syndio he was a Staff Data Scientist at BetterUp, where he measured the impact of enterprise-wide program rollouts. He holds a PhD in Industrial-Organizational Psychology from the University of South Florida. His current work at Syndio focuses on what pay decisions cost when they are made without governance, including the EU cost model in this paper.

SYNDIO

Syndio is the Decision Intelligence for Pay company. It built its reputation solving pay equity for the world's largest employers, drawing on more than a decade of expertise from economists, lawyers, data scientists, and former compensation leaders who have spent their careers inside the world's hardest compensation problems. Syndio has since expanded that foundation into an AI-powered platform that governs compensation decisions as they happen.

The Syndio platform spans the full enterprise, from continuous equity analysis and global compliance reporting to every offer, promotion, and pay review, so every euro drives the outcomes the business needs: to win talent, control costs, and stay ahead of global pay transparency requirements. Powered by Syndi, AI that governs pay decisions as they happen, every decision is compliant, explainable, and aligned to strategy.

More than half the Fortune 100 and nearly 400 enterprises trust Syndio to govern over \$1 trillion in pay decisions for 10 million employees across 100+ countries. Backed by Bessemer Venture Partners, Emerson Collective, Penny Jar Capital, and Operator Collective, Syndio combines deep compensation expertise with real-time AI to help organisations govern pay decisions at scale.

Learn more at syndio.com