

Studying the Effects of Pay Transparency

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Many states have enacted pay transparency laws that are intended to enhance the visibility of compensation practices to job candidates and current employees. One of the purposes, if not the primary one, is to create pay equity between disadvantaged groups and others by making information about pay programs widely accessible. Indeed, where transparency is earnestly practiced, the differences in salaries between groups decline.

Not all organizations, however, are proponents of pay transparency. These organizations argue that while these laws are directed toward a particular policy outcome of pay equality, the mechanisms by which this is achieved are unclear and that there may be unintended consequences. Foremost on the metaphorical minds of organizations are concerns about corporate profitability and the potentially disruptive effects that open dialog about money may have on employee pay and performance. Therefore, for organizations that wish to effectuate changes that truly promote fair pay practices, there are several questions they should ask and answer as they introduce their versions of pay transparency.

SullivanCotter suggests empirically examining the following questions using carefully crafted experimental designs and concomitant controls.

1. HAS PAY TRANSPARENCY REDUCED THE DIFFERENCES IN PAY BETWEEN GROUPS AND IF SO, HOW?

This is a pre-post comparison of group differences with the caveat that differences can be closed either by reducing the compensation of the higher-paid or elevating the compensation of the lower-paid. The data suggests (all allusions to “data” or research” in this paper are attributable to the articles in the reference section) that salary parity tends to be produced by lower starting salaries for males (in most studies) and allocating smaller pay increases over time. However, these results are influenced by how pay transparency information is provided and the messaging of those communications.

2. ARE THE EFFECTS OF PAY TRANSPARENCY UNIFORM ACROSS THE ORGANIZATION?

Currently, there is little information available on how pay transparency may differentially affect higher-versus lower-paid positions or positions in different functional areas. Nevertheless, organizations will want to examine if greater changes are more probable for certain positions, functions, or levels in the organization. Certain areas of the organizations may have greater competitive pressures to find and retain talent or be less constrained by narrow and rigid salary structures, allowing for greater discretion and greater potential for pay inequities.

3. DOES HOW PAY TRANSPARENCY DATA IS PORTRAYED AFFECT WHO IS ATTRACTED TO THE ORGANIZATION?

Research shows that pay transparency information can differentially appeal to certain audiences, attracting more or less men and women. Similar to the evidence on job postings, pay transparency information can portray environments that are more or less competitive or cooperative, which, in turn, influences the attractiveness of organizations to would-be candidates.

4. DOES PAY TRANSPARENCY AFFECT EMPLOYEE PRODUCTIVITY AND PERFORMANCE?

Unfortunately, the impact on productivity and performance is unclear. There is some indication that the connection between pay and performance is reduced. With the allocative movement toward equality (versus equity), other compensatory factors such as market values, time in position, and functional area increasingly explain differences in pay. If an organization has a reliable and valid performance program and a statistically adequate history of ratings (or other metrics), the relationships between pay and performance can be contrasted pre- and post-introduction of salary information.

5. DOES PAY TRANSPARENCY AFFECT CORPORATE PROFITABILITY?

This assessment depends on the combined influences of employee productivity and compensation expense. If, for example, egalitarian pay practices undermine principles of merit and effort, then an organization may experience reductions in productivity and operating margin. If pay transparency affects total compensation costs, then labor-intensive industries such as health care may see an increase or decrease in EBITDA, depending on the direction of the per capita expense. Thus, fully embracing the aims of pay transparency may entail the simultaneous management of performance-based expectations, hiring practices, and employer costs.

6. HOW DOES PAY TRANSPARENCY AFFECT THE ORGANIZATIONAL CULTURE?

The kinds of practices organizations ultimately adopt should be consistent with their overall cultural preferences. For example, organizations that openly share their financial information with staff will most likely find that sharing compensation guidelines and practices with employees is a philosophically digestible step. An organization's position on pay transparency is a highly visible communicative device that says quite a lot about the corporate culture. What organizations have to say about pay transparency says a lot about its cultural orientation toward information sharing and an ethic of openness.

There is a truism that when it comes to research, no question is simple. One action can affect, and be affected by, myriad variables in unexpected ways. It takes an inquisitive and self-reflective organization to want to cut through the noise and discover what the data says about the effects of the new transparency laws on their organization's functioning. If the goals are to improve the organization's culture and financial standing and the well-being of staff by instituting fair compensation practices, then knowing how current transparency laws influence organizational outcomes would be a prudent course of action.

References

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