

## EXECUTIVE SUMMARY

### Final Question

How does transparent base compensation affect US-based full-time employee motivation within the context of pay inequality perceptions?

### Introduction

Transparent compensation is a growing discourse amongst business leaders. 67% of organizations believe that pay transparency is becoming increasingly important<sup>1</sup>. However, implementation has lagged far behind, with only 14% of organizations participating beyond a moderate level and over 60% of managers being untrained on the topic<sup>1</sup>. As such, the standard for transparency in the United States is being pushed by state-level legislation instead of industry leaders like FAANG (Facebook/Meta, Amazon, Apple, Netflix, and Google); seven states (including New York) have passed laws requiring employers to disclose salary ranges when hiring, with another 8 states proposing bills to do the same<sup>2</sup> (*See Figure 1*).

### Effect on Current Employees

**Turnover/Retention:** Even before legislation, there was a question of how pay transparency might affect the workplace. Transparent pay can decrease turnover rates by 30%. Overall, however, job-seeking behavior increased by 3% for Generation Z workers, perhaps due to their desire to change jobs for higher compensation, especially if there are higher salaries advertised and they do not understand the rationale behind their pay<sup>3</sup>.

**Motivation:** Transparent compensation increases employee motivation by strengthening the link between performance and pay. When employees were told the salaries of the managers a few steps above them in the company hierarchy, they worked longer and improved their performance through higher sales. However, the benefit of motivation and job performance can be lost in environments where performance cannot be objectively distinguished and measured<sup>4</sup>.

**Fairness perception:** Justice perception plays a significant role in shaping employees' attitudes towards pay transparency. If employees believe that their pay is unfair, they are more likely to resign<sup>3</sup>. In professional sports, players who think that they are unfairly underpaid compared to their peers tend to reduce their effort and perform worse<sup>5</sup>. When pay transparency is high, whether an individual's pay is fairly determined will directly affect their intrinsic motivation<sup>6</sup>. Satisfaction with one's pay impacts their satisfaction with their job<sup>4</sup>. Therefore, for transparent compensation to be viable and perceived well by employees, it's important to clearly communicate how compensation is structured and determined, explain how it is competitive to the market, and the way it can be increased<sup>3</sup>.

### Effect on External Candidates

New laws requiring disclosure in parts of the U.S. are raising employee expectations and prompting employers to add salary information to their job postings. As of February 23, more than 40% of U.S. jobs posted on Indeed include employer-provided salary information, a 137% increase over the past three years.

Regulation isn't the only factor, it is also occurring in areas without such requirements. This trend will continue as more laws are passed<sup>10</sup>.

People are more attracted to a job and apply when an exact salary is provided, as opposed to a range, which increases the pool of applicants<sup>11</sup>. For external candidates, salary transparency has several benefits. First, it helps companies attract more applicants and improve the quality of those applicants. 70% of organizations that list salary ranges in their job postings say doing so has led to more people applying; 66% say disclosing salaries has improved the quality of applicants; and 65% of companies that list salary ranges say it makes them more competitive in attracting top talent<sup>10</sup>. Second, transparency makes it easier for applicants to self-advocate when they know how much their coworkers and industry peers are making<sup>7</sup>.

### **Pay Equity**

Transparent compensation has great potential for closing salary gaps from direct demographic differences such as gender and race<sup>7</sup>. However, differentiation remains across performance, job level, location, and more. If employees are not given clarity on how the first two are evaluated, the topic of gender or race-based pay gap would simply shift from salary to performance or level<sup>8</sup>. When implementing transparent compensation, organizations should be prepared to show their analyses behind their compensation decisions rather than making arbitrary judgements. This display of fairness and organizational justice is an additional strong signal for attracting, retaining, and motivating employees<sup>9</sup>. It should be noted that from the employees' perspective, pay equity is not directly tied to transparent compensation; it is instead a tool with which organizations can signal equity.

### **Conclusion & Recommendations**

Pay transparency is important to promote fairness and equality but must be implemented carefully to avoid demoralizing employees; employees may become less willing to put in the effort and perform when they learn about pay inequality. Workplace conflict, jealousy, anger, and other negative outcomes may increase, causing employees to view the relationship as more transactional, eroding trust and motivation<sup>9</sup>.

To avoid this, companies should inform their employees that pay transparency is a measure to promote pay for equal work and fairness. It is then necessary to benchmark the company's pay against industry standards and competitors if that's not possible, explain to employees what they'll gain in total compensation, including benefits. Managers should be trained and empowered to share the company's compensation policies. If pay disparities exist within the company due to gender, race, or other factors, take steps to correct those quickly and transparently.

Current compensation decision-making should be reevaluated so that it is consistent and based on objective criteria. Employees are more likely to accept pay disparities when they see differences in experience, skills, and performance. It's also a good idea to involve employees in the compensation decision-making process. We recommend that companies have more open and honest conversations through regular performance reviews that give employees the opportunity to improve their compensation.

## References

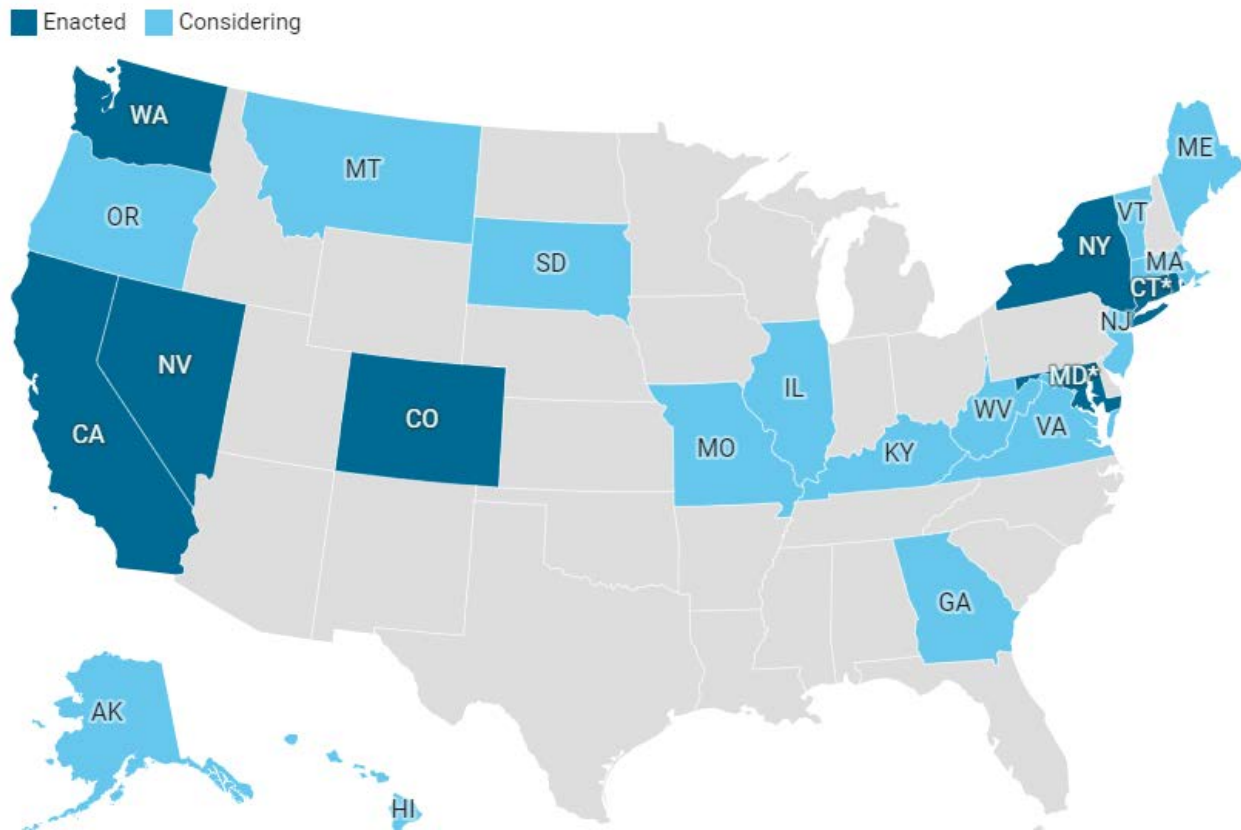
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Appendix

Figure 1. States that enacted or are considering pay transparency laws

**8 states have enacted, and at least 15 states are considering, salary range transparency laws**

Status of salary range transparency legislation across the United States



[Pay Transparency Study](#). WorldAtWork and Mercer. Retrieved October 19, 2023.