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## Pay Transparency: What Do Employees Think

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# Pay Transparency: What Employees Think



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A colleague, who is a senior rewards leader, recently was shocked when two employees cornered him in his office and demanded to know why one of them was paid more than the other. Thought leaders have long advocated that employers share more information about pay, and pay transparency increasingly has become an expectation, especially among younger employees (e.g., Bamberger and Belogolovsky 2010; Day 2007; 2012; Futrell and Jenkins 1978; Gherson 2000; Lawler 1966; 1967; Scott and McMullen 2013; Scott, McMullen, Sperling, and Bowbin, 2007).

That colleague, after providing a very generic explanation that pay differences occur because of different levels of job responsibility, employee performance and labor market pricing, resolved to convince senior management that the company needs to be more transparent concerning pay.

Arguments against increased pay transparency include concerns about employee privacy as well as exposure of pay-structure inequity and shortcomings (Bierman and Gely 2004; Colella et al. 2007; Day 2012; Gomez-Mejia and Balkin 1992; Markels and Berton 1996; Pappu 2001;

Scott and McMullen 2013). Furthermore, open pay communications can make employers more vulnerable to having competitors poach employees, especially in tight labor markets (Case 2001) or being charged with pay discrimination (Friedman 2014; NLRB 2000; Leventhal, Michaels, and Sanford 1972). Thus, it is not surprising that 60% of private employers either explicitly prohibited or strongly discouraged employees from discussing their pay with co-workers (Institute for Women's Policy Research 2014).

The current study of pay communications and pay transparency is particularly timely. Previous research found a major gap between what rewards leaders advocate in terms of pay communications and transparency and the information employers share with employees (Scott and Mullen 2013). Research on pay transparency often is limited to experimental studies with student subjects, samples of employees from single organizations or surveys of compensation professionals. Although each of these studies provides insight, an accurate representation of how employees perceive pay transparency or pay communications may not occur. Probably the most obvious weakness is that most of these studies and observations are outdated (e.g., Case 2001; Futrell and Jenkins 1978; Gherson 2000; Lawler 1966; 1967; Markels and Berton 1996; Pappu 2001; Sim 2001; Bierman and Gely 2004).

Finally, during the past several decades, the workforce has become more diverse in terms of pay levels, gender, education, race, age, religious affiliation, and so forth. These factors also may influence how employees perceive pay transparency as well as the efforts companies make to communicate pay information.

Based upon a diverse survey of full-time employees from nearly 300 organizations, this study attempted to learn:

- How employees perceive their employers' pay communications and levels of pay transparency
- Whether increased understanding of the employers' pay structure and pay policies is related to retention, trust in management and pay satisfaction.

## **DATA COLLECTION AND ANALYSIS**

A Likert-type survey was administered to a sample of full-time employees provided by Amazon's Mechanical Turk (MTurk) service. Since 2005, Amazon has provided researchers with samples from individuals who have agreed to complete a survey for a fee. Amazon acts as the financial intermediary with responsibility for anonymously collecting both the payment from the researcher and compensating those who complete the survey.

Three hundred respondents representing nearly 300 different organizations completed the survey. This diverse sample was split almost evenly between men and women (53% and 47%, respectively). More than 50% of the sample had at least a bachelor's degree (Figure 1), two-thirds were 40 years old or younger (Figure 2), and almost half earned less than \$40,000 a year (Figure 3).

The survey required 10 to 15 minutes to complete. As indicated later in this article, the survey was mostly developed from existing measures of pay communication, pay transparency, pay transparency preferences, trust in management, intention to quit and pay satisfaction as defined below. (See “Survey Measures Defined.”)

Employees’ responses concerning how their companies communicated pay information, the degree of pay transparency within their companies, their preference for pay transparency and the sources of pay information are reported in Tables 1 through 4. The mean score and standard deviation are reported for each statement used to create the measures (scales). The frequency scores are the percentage of those who responded to each of the response categories for the individual questions (i.e., strongly agree, disagree, neither agree nor disagree, agree, strongly agree).

Table 5 reports mean scores for each of the measures, standard deviations, correlations among the measures and coefficient alpha (reliability) for each measure. Although the responses to individual items or statements provide descriptive information in Tables 1 through 3, the overall scores for these scales indicate consistent responses to the measures indicated by the high coefficient alpha scores reported in Table 5. These highly reliable scores allow us to examine how these employee perceptions might be related to each other, and how these perceptions might be related to differences among respondents’ gender, income level, educational level and age.

## SURVEY MEASURES DEFINED

**Pay Communications:** represents the extent to which employers disclose pay information, including pay policies and procedures, pay ranges, average merit increases and criteria for pay increases. Three items were taken from Scarpello and Jones (1996).

**Pay Transparency:** indicates the extent to which the culture of the work environment places a strong emphasis on being open about pay, including positive norms about sharing pay information and whether employees feel comfortable sharing their pay information with other employees.

**Pay Transparency Preferences:** examines the level of pay information employees would like to share with other employees, which was adapted from Schuster and Colletti (1973).

**Sources of Pay Information:** discloses where employees obtain information about pay. Because these sources of information were not expected to be related, a scale was not created from which a mean score or coefficient alpha could be calculated.

**Trust in Management:** the five items used to measure trust in management were taken from Scott (1980), which asks respondents if they trust management and if management follows through with what it says it is going to do.

**Intention to Quit:** examines if employees plan to leave current employers within the next year and the likelihood of employees quitting. This scale was taken from Shields, Scott, Bishop and Goelzer (2012).

**Pay Satisfaction:** indicates how happy employees are with all aspects of their pay, including amount, raises (i.e., merit increases), pay policies, pay structure and pay administration. This measure was taken from Heneman and Schwab (1985).

## FINDINGS

### Pay Communications

Table 1 shows that, overall, respondents believe their companies communicate on most aspects of pay (overall mean score = 3.5). Specifically, 84% of respondents said they strongly agree or agree that their employers communicate about pay policies and procedures, and 75% of respondents said they believe their questions about how their pay is determined are answered. Seventy-three percent indicated that their employers communicate pay issues of concern to employees. The items with the least agreement among respondents were the disclosure of the average merit increase (46%) and the communication of changes to the pay ranges for jobs in the department or business unit (47%). It seems that employees are more likely to recognize general pay communications but are less likely to attribute specific communications — in this case about pay ranges and merit pay — to their employers.

### Pay Transparency

Table 2 shows that respondents had mixed perceptions about the level of pay transparency exhibited by their employers. Fifty percent indicated they agreed that there are strong norms in their workplaces about not discussing pay. Respondents

**TABLE 1** Pay Communications\*

Pay Communications (mean = 3.5)	Mean	Standard Deviation	Strongly disagree	Disagree	Neither agree nor disagree	Agree	Strongly agree
My employer communicates pay policies and procedures.	4.0	0.92	2	7	7	56	28
My employer answers questions about how my pay is determined.	3.9	1.12	4	13	8	44	31
My employer communicates pay issues of concern to me.	3.8	1.06	3	12	13	45	27
At my employer, employees are told how decisions about their pay are made.	3.6	1.18	6	15	14	41	24
At my employer, employees are told what they must do to increase their pay.	3.3	1.24	9	22	18	33	18
My employer publicizes or will tell me if I ask for the pay ranges for jobs within the department or business unit.	3.1	1.30	13	24	17	31	16
When merit-pay increases are distributed, my employer tells us what the average merit increase is.	3.0	1.34	15	27	12	30	16

\*Frequency scores are reported in percentages. The percentage scores for each statement (item) may not add up to 100% because of rounding.

Source: 2018 Pay Transparency Study

were divided about whether pay was meant to be kept secret where they work (49%), but only 18% believed they would be disciplined or fired for sharing pay information with other employees. Responses were split on whether participants believed that their organizations prided themselves on being transparent about pay, with 38% of respondents agreeing and a same percentage disagreeing.

### Pay Transparency Preferences

Table 3 indicates that respondents in this study had mixed preferences for privacy regarding sharing personal pay information. Forty-six percent of respondents said they believe that information about base pay or salary rate should be kept secret, whereas 54% were indifferent or strongly disagreed. When asked whether other employees should know how much respondents were paid, 52% indicated that

**TABLE 2** Pay Transparency\*

Pay Transparency (mean = 3.27)**	Mean	Standard Deviation	Strongly disagree	Disagree	Neither agree nor disagree	Agree	Strongly agree
There are strong norms where I work about not discussing how one is paid with other employees.	2.7	1.34	11	24	15	27	23
I will be disciplined or fired if my employer finds out that I told other people what I'm paid.	3.8	1.24	37	29	16	12	6
How people are paid is a secret where I work.	3.2	1.34	18	31	15	22	14
My employer prides itself on being open and transparent about pay.	3.0	1.27	14	24	24	24	14

\*Frequency scores are reported in percentages. The percentage scores for each statement (item) may not add up to 100% because of rounding.  
 \*\*Individual statements are reverse-scored so the higher mean score indicates higher levels of pay transparency.

Source: 2018 Pay Transparency Study

**TABLE 3** Pay Transparency Preferences\*

Pay Transparency Preferences (Mean = 2.75)	Mean	Standard Deviation	Strongly disagree	Disagree	Neither agree nor disagree	Agree	Strongly agree
Information on my base or salary rate should be kept secret.	2.9	1.29	14	24	16	33	13
Other employees should not know how much I am paid.	2.7	1.32	13	20	15	33	19
Individual pay information should be confidential.	2.6	1.30	9	20	14	32	25

\*Frequency scores are reported in percentages. The rows may not always add up to 100% because of rounding.

Source: 2018 Pay Transparency Study

other employees should not know this information, but 48% indicated they were indifferent or disagreed regarding confidentiality. Employees who were younger than 40 were less concerned about sharing personal pay information compared with those older than 40.

### Sources of Pay Information

As shown in Table 4, respondents indicated that their primary sources of pay information were the HR department (57% agreeing or strongly agreeing) and their supervisor or manager (60% agreeing or strongly agreeing). Respondents either agreed or strongly agreed that they were less likely to obtain pay information from other employees (34%), websites (32%) and family members or friends (18%). It is noteworthy that, given recent discussions about increased preferences for pay transparency stimulated by the media that the source of pay information came predominantly from the HR department and supervisors and managers rather than other employees, websites and family members or friends.

### Relationship Among Employee Attitudes and Characteristics

Table 5 reports the mean score, standard deviation, correlations and other variables and coefficient alphas for the measures (scales). Note that measures have strong coefficient alpha scores and are predominantly taken from existing measures, indicating validity. All the alpha coefficient scores are above .90, with the exception of the pay communications and pay transparency measure, which are a respectable .87 and .83, respectively. Unfortunately, given the design of this study, we cannot determine causal direction of relationships reported here.

We found pay communications and transparency to be positively related to pay transparency preferences, trust in management, intention to quit and pay satisfaction. Pay transparency preferences were not related to trust in management, intention to quit or pay satisfaction. Pay level was negatively related to pay satisfaction and positively related to intention to quit. In other words, higher-paid employees are less satisfied with their pay and more likely to consider quitting.

**TABLE 4** Sources of Pay Information\*

Sources of Pay Information	Mean	Standard Deviation	Strongly disagree	Disagree	Neither agree nor disagree	Agree	Strongly agree
Human Resource Department	3.4	1.26	9	18	17	35	22
Supervisor or manager	3.4	1.26	10	20	11	41	19
Other employees	2.6	1.30	22	33	11	26	8
Websites like Glassdoor or Salary.com	2.5	1.35	33	27	9	25	7
Family members or friends	2.0	1.17	45	29	7	16	2

\*Frequency scores are reported in percentages. The rows may not always add up to 100% because of rounding.

Source: 2018 Pay Transparency Study

**TABLE 5** Correlation Matrix

Variable	Mean	SD	1	2	3	4	5	6	7	8	9
1. Pay Communications	3.53	.91	(.87)								
2. Pay Transparency	3.27	1.05	.43**	(.83)							
3. Pay Transparency Preferences	2.75	1.23	.15**	.45**	(.94)						
4. Trust in management	3.58	1.22	.46**	.27**	.09	(.96)					
5. Intent to Quit	2.43	1.33	-.47**	-.24**	-.09	-.65**	(.95)				
6. Pay Satisfaction	3.35	1.03	.59**	.28**	.11	.66**	-.67**	(.97)			
7. Pay Level	2.48	1.00	.11	-.02	.02	.07	-.20**	.22**	–		
8. Gender	1.47	.50	-.17**	-.02	-.11	-.12*	.09	-.19**	-.21**	–	
9. Age	2.34	.72	.00	-.14*	-.21**	.02	-.03	-.01	-.02	.15*	–
10. Education Level	3.53	.95	-.05	.02	.08	-.04	.04	-.03	.38**	-.10	-.15*

\*\* =  $p < .01$ , \* =  $p < .05$

Source: 2018 Pay Transparency Study

Women rated pay communications, trust in management and pay satisfaction lower than did men. Employee age was negatively related to perceptions of pay transparency and pay transparency preferences. Finally, educational level of respondents was not found to be related to any of the attitudinal variables.

## CONCLUSIONS AND RECOMMENDATIONS

The dramatic changes that have occurred in employee-employer relationships, employee demographics and the accessibility of pay information online require that we re-examine our attitudes about pay communications and pay transparency. Given the advantages and disadvantages of sharing pay information, determining the amount and content of information that should be shared with employees has always been problematic for employers.

This study indicates that employee preference for pay transparency is mixed. Furthermore, our findings indicate that many employees already believe that their employers are currently sharing substantial amounts of information about pay (pay communications). In fact, the significant relationships among data we examined indicated the amount of pay information was positively related to perceptions of pay satisfaction and trust in management, and negatively related to employee intention to quit. However, pay transparency preferences were not related to any of the work attitudes or employee characteristics, with the exception of age. The negative relationship with age and pay transparency is not surprising given the media reports of younger employees’ willingness to share information with each other.

We also learned from this study that women had lower levels of pay satisfaction and trust in management than did men. This is consistent with the finding that women believed their employers were less willing to share pay information with



them than they were with men. However, women are no more likely to report that they would leave their jobs than men, according to reward leaders.

Based on our findings, we recommend:

- Because strong relationships are found between pay communication and employee trust in management, retention and pay satisfaction, employers should seriously consider increasing the transparency of their pay programs and their pay communications with employees.
- Individual pay information should be kept private, but information should be provided about pay philosophy, pay structure, merit increases and budgets. This information will allow employees to understand why they are paid what they are paid and how to direct their efforts to increase their earnings and contribute to the competitiveness of their employers.
- Because women indicated they are not receiving as much information about their pay as men, additional efforts should be made to address and ameliorate this discrepancy. Although women do not indicate that they are more likely to quit than are men, the data show that their pay satisfaction is lower and they are less likely to perceive their pay as fair. Additional efforts to communicate pay information should be made.
- Although younger employees are more willing to share pay information than older employees, given the positive relationship between pay communications and pay transparency with pay satisfaction and trust in management, it is advisable for employers to recognize that pay transparency and communications are important for all employees.

Although this research does not attempt to assess the quality of compensation systems upon which the employees were responding, based on the authors' experience, more open pay communications should be considered only when a pay system is aligned with strategic goals of the company and when it reliably distributes pay based on criteria employees would consider fair. ■

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#### ABOUT THE AUTHORS

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