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Pay communication: Where do we go from here?

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ABSTRACT

Recently, there has been a movement towards pay openness in the workplace. However, the pay communication literature is narrow in scope, considering only a limited range of outcomes, which makes the reasoning for this recent trend of pay openness practices hard to determine. Therefore, the purpose of this paper is to encourage expansion of the pay communication research, specifically focusing on pay openness practices. A definitive description of pay communication, as well as its two extremes (pay openness and pay secrecy) are provided. Additionally, a typology of the two aspects of pay communication (organizational restriction and employee restriction) that has been identified from the literature is developed. Based on the organizational justice framework, propositions are developed for pay openness practices' influence on previously overlooked dependent variables such as workplace deviance, organizational citizenship behaviors, organizational commitment, and perceived organizational support. Several propositions, models, and additional new directions are presented for future research.

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1. Introduction

Recently, there has been a movement towards pay openness, also known as pay transparency, in the workplace. This current trend is due to several things. First, pay information is now readily available on the internet through third-party websites such as Glassdoor.com, Salary.com, and PayScale.com, where individuals can access general salary information (such as the salary average, as well as the 10% and 90% averages) as well as anonymously-posted individual salaries for specific jobs in certain locations or in certain companies (Ledford, 2014). Second, President Barack Obama signaled the essential need for a pay openness culture by signing an Executive Order in April 2014 that prohibits federal contractors from retaliating against employees who discuss their personal pay information. Third, the latest entrants to the workforce are the Millennial generation who are acquainted with an open-access culture where they are comfortable providing personal information on the internet, such as with social media networks (e.g., Instagram, Twitter, and FaceBook: Lytle, 2014).

Finally, several news articles have called for more pay openness in the workplace, stating how more beneficial pay transparency is in regards to positive employee and organizational outcomes (e.g., Bacharach, 2012; Lytle, 2014). For instance, pay openness assists in building perceptions of fairness, which in turn positively influences other desirable outcomes such as employee engagement (Bamberger & Belogolovsky, 2010). Additionally, some argued benefits of a transparent culture includes its assistance in the recruitment process (by making the timeline shorter since pay is known and salary negotiations are limited to a specific pay range) and in the diminishing of wage inequality between genders and races, which tends to be a big challenge for some companies, and creates positive perceptions of organizational justice (Lytle, 2014).

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In support of this pay openness movement, it appears over the past several decades that pay secrecy practices have been losing favor among U.S. organizations. Specifically, the proportion of companies utilizing pay secrecy policies has declined from 75% in 1985 (Balkin & Gomez-Mejia, 1985) to 36% in 2001 (HRnext.com Survey, 2001) to 23% in 2010 (IWPR/Rockefeller Survey of Economic Security: Lytle, 2014).

These recent efforts arguing for a pay openness culture in the workplace demonstrate that pay communication practices are an important aspect in the organizational setting. This is not surprising as compensation is considered an important job factor by employees (Gerhart & Rynes, 2003; Opsahl & Dunnette, 1966), which influences employee behavior and, in turn, can affect organizational effectiveness (Beer & Gery, 1972; deCarufel, 1986; Lawler, 1981). However, employee compensation is a complex notion since it represents an exchange for work performed (Andersson-Straberg, Sverke, & Hellgren, 2007) or for individual human capital (Lawler, 2000), as well as an achievement or form of recognition (Ackley, 1993; Goodman, 1974; Lawler, 1966, 1971; Lawler & Porter, 1963), an indication of organizational value (Lawler, 1966, 1971), a determinant of social status (Andersson-Straberg et al., 2007), a motivator (Ackley, 1993), a performance-related reward (Ackley, 1993), an aspect of performance feedback (Lawler, 1965b, 1966), and a self-esteem booster (Goodman, 1974), among other things.

Ironically, even though compensation is widely seen as critical to understanding how employees' respond to their organizations, we know little about employees' reactions to how pay is communicated in organizations. Since the current movement argues for pay openness and many companies have moved towards greater openness regarding pay, it is important to identify whether pay openness practices produce desirable employee and organizational outcomes. This paper provides a description of pay communication practices, as well as a typology, that will be useful for future researchers investigating this phenomenon. Organizational justice theory (informational justice in particular) provides a frame for explaining how pay openness practices influence employee attitudes and behaviors. Pay openness practices are expected to provoke a social exchange perspective among employees, thus resulting in predictable reactions such as organizational citizenship behaviors, perceived organizational support, and organizational commitment. Following the presentation of the theory and the models, several propositions are presented to provoke future research on this important current movement.

2. Pay communication

In the early literature, pay communication was merely referred to as pay secrecy, which was regarded as a single “all-or-nothing” concept (e.g., Burroughs, 1982; Colella, Paetzold, Zardhooki, & Wesson, 2007; Lawler, 1965b; Thompson & Pronsky, 1975), with pay openness representing the “nothing” portion. However, pay communication practices (pay secrecy and pay openness) are nowadays viewed as existing along a continuum (Burroughs, 1982; Colella et al., 2007; Lawler & Jenkins, 1992; Patten, 1978) as organizations vary on their usage of pay secrecy policies and the amount of pay information they present to employees (Gomez-Mejia & Balkin, 1992; Milkovich & Newman, 2005). Lawler (1981) first indicated that pay communication “ranges from almost total secrecy … through complete openness …” (p. 6); however, it was Burroughs (1982) who demonstrated how organizations may differ in regards to their pay secrecy level by illustrating different pay communication categories (e.g., red, green, yellow, and orange organizations). Building on Burroughs' (1982) research, it has been suggested (and widely accepted) that pay communication approaches occur along a continuum with one extreme representing complete pay secrecy and the other representing complete pay openness, with a variety of pay secrecy and pay openness strategies residing on the continuum between the two extremes (Colella et al., 2007; Lawler & Jenkins, 1992).

Pay communication is the organizational practice that determines if, when, how, and which pay information (such as pay ranges, pay raises, pay averages, individual pay levels, and/or the entire pay structure) is communicated to employees and possibly outsiders. A review of the literature suggests that both of the extremes or pay communication practices (pay secrecy and pay openness) consist of two aspects: organizational restriction and employee restriction. These two characteristics create the typology for pay communication (refer to Fig. 1). Organizational restriction refers to the amount of pay information the employing organization distributes to employees and possibly outsiders on a regular basis (e.g. at specific time intervals, such as yearly) or upon request (e.g., Bamberger & Belogolovsky, 2010; Colella et al., 2007; deCarufel, 1986). Employee restriction refers to the extent to which employees are permitted to discuss their pay information among each other and possibly outsiders, which is usually represented by a formal or informal pay secrecy policy (e.g., Bamberger & Belogolovsky, 2010; Bierman & Gely, 2004; Burroughs, 1982; Colella et al., 2007; Gely & Bierman, 2003; Thompson & Pronsky, 1975).

Pay openness, or pay transparency, is a pay communication practice that (at its most extreme level) allows employees to discuss their pay information with each other and with outsiders (low employee restrictions), and the organization also distributes all pay information to employees and outsiders on a regular basis or upon request (low organizational restrictions). Pay secrecy, or wage secrecy (Danziger & Katz, 1997; Gan, 2002; King, 2003), is a pay communication practice that (at its most extreme level) prohibits the distribution of any pay information by the employing organization (high organizational restriction: Bamburger & Belogolovsky, 2010; Colella et al., 2007; deCarufel, 1986), and forbids employees from discussing their pay information with other organizational members and outsiders (high employee restriction). This type of employee restriction generally involves the adoption of a pay secrecy policy (Bamberger & Belogolovsky, 2010; Burroughs, 1982; Colella et al., 2007; Thompson & Pronsky, 1975), also referred to as pay confidentiality rules (Bierman & Gely, 2004; Gely & Bierman, 2003). In order to promote compliance with a pay secrecy policy, some organizations require employees to sign a pledge stating they will not discuss their pay information with other organizational members, while others take it a step further and enforce this restriction by having disciplinary consequences (such as termination) for those employees who violate the policy (Gomez-Mejia & Balkin, 1992). Generally, a pay secrecy policy is conveyed either verbally, usually during employee orientation or employee meetings, or in writing, such as in employee manuals or handbooks (Bierman & Gely, 2004; Gely & Bierman, 2003).