Listening to whispers at the water cooler

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Just as she was about to retire, Lily Ledbetter, a production supervisor at an Alabama tire plant, learned that her employers had financially discriminated against her throughout her career. She filed suit for pay discrimination, losing due to a statute of limitations on equal-pay suits. As a result, President Barack Obama signed the Lily Ledbetter Fair Pay Act into law in 2009, drawing attention to the effects of pay secrecy on the workplace.

Now Prof. Peter Bamberger of Tel Aviv University's Recanati School of Business and Dr. Elena Belogolovsky of Cornell University's School of Industrial and Labor Relations have published a study that explains why pay secrecy is likely to hurt an individual's work performance and prompt top talent to seek new employment. They conclude that pay secrecy weakens the perception by employees that a performance improvement will be accompanied by a pay increase. It also finds that high-performing workers are more sensitive than others when they perceive no link between performance and pay—suggesting that pay secrecy could limit a company's ability to retain top talent.

The study was recently published by the *Academy of Management Journal*.

The more secrecy, the worse performance

"We found only a negative effect of secrecy on individual worker performance," said Prof. Bamberger, who has been studying human resources compensation strategies for over 10 years. "But there are many different variables in pay transparency, and we wanted to study several variables in one experiment."

In that experiment, 280 Israeli undergraduates were paid a base fee to play a computer game for one hour. Half of the participants were told the amount of the bonus they and their peers would earn, but the other half were informed only about their own bonuses; the latter group was also asked not to discuss wages during breaks in the game. By measuring performance and peer-perception repeatedly over several performance rounds, Prof. Bamberger and Dr. Belogolovsky were able to reach conclusions about the effect of pay secrecy on performance.

"Secrecy has a negative effect on worker performance, but not for the obvious reasons," said Prof. Bamberger. "Trust and fairness may be part of it, but we found from our experiment that most of the effect is explained by a reduction in the perceived expectation of additional pay for better performance—for trying harder."

Little reward for working harder

Part of the basis for their research was a finding from earlier studies that participants who are unaware of what their peers earn tend to underestimate how much successful performers earn, while overestimating how little poor performers earn. "When the economic gap is imagined to be so minimal between good and bad performers, the employee thinks that working harder just isn't worth the effort," said Prof. Bamberger.

Pay secrecy can have negative ramifications on companies, which—as a result of undisclosed pay scales—have to contend with decreased worker performance and increased turnover, Prof. Bamberger says. "Companies don't value pay transparency, because it's thought to weaken overall efficiency. There are no shortcuts in transparency. For example, you can't pay bonuses on the side to secure valued employees who are threatening to leave."

Prof. Bamberger is currently working with colleagues in other countries and using other approaches to better understand the consequences of transparency in pay systems.

Provided by Tel Aviv University

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