The incentive and sorting effects of payroll secrecy

February 26 2014, by Mary Catt

If salaries in your workplace are secret, there's more at stake than the frustration of thinking coworkers who produce less than you might be getting paid more.

Research by Elena Belogolovsky, assistant professor of human resource studies in the ILR School, indicates that pay secrecy might also hurt your work performance and prompt top talent to look for new jobs.

In a paper published online in January by the *Academy of Management Journal*, she and Tel Aviv University Professor Peter Bamberger '82, M.S. '84, Ph.D. '90, explain why a lack of transparency about pay hurts an individual's performance.

When the payroll is private – causing uncertainty about what workers think the pay range might be – it weakens employees' perception that a performance increase will be accompanied by a pay increase, they write.

Workers also see pay secrecy as a method of managerial opportunism or deception, according to the research, "Signaling in Secret: Pay for Performance and the Incentive and Sorting Effects of Pay Secrecy."

Belogolovsky and Bamberger gleaned their findings from experiments with 280 Israeli undergraduates.

All were paid a base salary of $5.70 an hour to play a computer matching game. Half of the participants received information about their

bonus pay and the bonus pay of fellow group members in the experiment. The other half received information about their bonus pay only. That half was requested not to discuss any pay-related issues during the experiment.

High-performing participants were more sensitive than others when they perceived no link between performance and pay, researchers said, suggesting that pay secrecy may hinder a firm's ability to retain top talent.

When students in the pay secrecy group were told they were being paid based on how they performed compared to peers, performance and retention went down.

However, negative effects of pay secrecy on employee performance and retention thinned when workers were told that performance was assessed objectively on a scale of absolutes, rather than subjectively.

Even if pay secrecy in isolation does not negatively affect employee pay-for-performance perceptions, it can lead to negative behavioral consequences, they wrote. Decreased performance and increased turnover, for example, can result when pay secrecy is paired with other policies – namely pay based on what others earn – that raise employee concern.

Belogolovsky and Bamberger also found that subtle "signals" in the way human resources policies are communicated and put into practice can influence employees' perception of workplace uncertainty and inequity, leading to poorer performance and higher turnover.

More information: Elena Belogolovsky and Peter Bamberger. "Signaling In Secret: Pay For Performance And The Incentive And Sorting Effects Of Pay Secrecy." *ACAD MANAGE J* amj.2012.0937;

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