



ENDING PAY SECRECY

Why Keeping Salaries a Secret Leads to Disengagement and Decreased Performance, and How Revealing Pay Information Can Actually Increase Performance

David Burkus

DO YOU KNOW HOW YOUR PAY COMPARES TO YOUR PEERS?

PROBABLY NOT.

You probably don't talk about it much. Most Americans are more comfortable talking about their sex lives than their salary lives. And most employers are happy to keep that secrecy going. According to a 2011 report from the [Institute for Women's Policy Research](#), about half of American workers said that discussing salary information is either discouraged or outright prohibited. The assumed reason behind these prohibitions is that if everybody knew what everybody got paid, then all hell would break loose. There would be complaints. There would be arguments. There might even be a few people who quit.

But what if secrecy is actually the reason for the strife, and what would happen if we removed that secrecy?

For the past several years, I've been studying the corporate leaders and entrepreneurs who have been questioning conventional wisdom about how to run a company and the question of pay keeps coming up. And the answers keep surprising. It turns out pay transparency—sharing salaries openly across the company—makes a better workplace both for employees and for the organization.

When people don't know how their pay relates to their peers, they either think that they're being underpaid and maybe discriminated against or, worse, they actually are. In a [2015 survey of over 70,000 employees](#), an astonishing two-thirds of people who were paid at the market rate believed they were actually underpaid. And the majority of those who felt they were underpaid (even those actually paid at market rate) also said they intended to quit.

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Compounding the confusion about pay is a decades old, research-based insight called equity theory, developed in the 1960s by John Stacey Adams, a workplace psychologist. Adams argued that employees have a strong desire to maintain equity between the inputs (performance) they bring to the work and the outputs (pay) that they receive from the organization as they relate to the perceived inputs and outputs of their coworkers. To do this, employees are constantly seeking out information not just about their own performance and pay but also about the performance and pay ranges of their coworkers. This explains why employees, even if subtly, often try to glean pay and performance information from their peers—and why, on the rare occasion that people actually reveal what they're paid or someone accidentally leaves a pay stub on the copy machine, chaos ensues.

Adams labeled his assertion “equity theory” and proposed that employees who think they're under- or overpaid experience distress and will take actions to restore the perception of equity. When employees feel underpaid relative to their peers, their distress will most likely result in decreased performance as they lower their effort to bring their performance in line with their perceived rewards. This distress can also lead them to develop hostility toward the organization and toward their coworkers.

Despite this, most companies continue to shut down salary discussions, assuming it's for the good of everyone involved. But employees, perhaps knowing the faultiness of corporate assumptions, have a long history of revolting.

In one famous example, the management of Vanity Fair magazine circulated a memo entitled “Forbidding Discussion Among Employees of Salary Received.” The memo didn’t sit well with every employee. Famed writers Dorothy Parker and Robert Benchley, along with editor Robert Sherwood, responded the following day by arriving at the office with their salaries proudly written on signs hanging from their necks.

More recently, in 2013, a training coordinator at [a Texas-based civil engineering firm was fired for discussing salary information](#)—a “pet peeve” of the company. Fortunately for her, the National Labor Relations Act of 1935 protects employees’ right to discuss the terms and conditions of employment, including wages. When her case was brought before the National Labor Relations Board, the firm was ordered to offer her the job back (she declined) but also pay over \$100,000 in back pay and 401(k) contributions.

The rationale behind making it illegal to prohibit salary discussions is that pay secrecy creates information asymmetry—a term in economics for when one party in a negotiation has more,

or more accurate, information than the other. Although both sides of a salary negotiation have access to privileged information (both the employer and the prospective employee know her old salary), the employer holds a much greater amount of privileged information (the salary of everyone in the company and the budget for the position) and is therefore able to gain an advantage in most situations. The problems of information asymmetry abound, everywhere from insurance sales to loan agreements and even to contract/salary negotiations. Information asymmetry can cause markets to go awry and sometimes can produce a total market failure.

The effects of information asymmetry are so great that the Nobel Prize in Economics was awarded in 2001 to the three economists who laid a foundation for understanding and combating the market problems it creates. George Akerlof, Michael Spence, and Joseph E. Stiglitz shared the prize for their “analyses of markets with information asymmetry.” Although they recommended several strategies for resolving asymmetry, they all had one thing in common: the need to share more information. The more openly information is shared, the more efficiently the market performs. This appears to be true whether you’re buying a car or interviewing for a job.

But beyond just restoring symmetry to information and equity to employees’ perspective on fairness, sharing salaries has motivational benefits as well.

Inside the lab, researchers Elena Belogolovsky (Cornell University) and Peter Bamberger (Tel Aviv University) found that keeping salaries secret is associated with decreased employee performance. They studied 280 Israeli undergraduate students, all of whom were paid a base salary for completing three rounds of a computer matching game with bonuses based on how well they played the game. Even though participants played the game individually, they were assigned to a four-person work group.

Half of the participants were given information about their performance and bonus pay alone (pay secrecy). The other half were given information about their own performance and their pay, but also the same information for the other three people in their work group (pay transparency); they knew what everyone else was getting paid. Members in every work group were given the opportunity to communicate with each other between rounds, but the pay secrecy group was restricted from discussing anything related to pay. In addition, some students were assigned to an absolute condition—pay was linked to performance (how many matches)—while others were assigned to a relative condition—pay was linked to performance relative to the performance of their work group (who had the most matches in the group).

When the research duo calculated the performance data, they found that lack of transparency was associated with decreased performance. When students in the pay secrecy group were also

told that their pay was relative to the performance of others (whose performance and pay they couldn't see), their performance was even worse. In addition, the high-performing participants were even more affected when they couldn't see a clear link between pay and performance among their entire work group.

So it's clear that keeping pay secret is related to disengagement and decreased performance. But can openly sharing pay information yield increases in performance? That's the question that Emiliano Huet-Vaughn, an assistant professor of economics at Middlebury College, sought to answer during his doctoral studies at the University of California at Berkeley. Huet-Vaughn designed an experiment to see if exposing people to information about their pay in relation to pay for others would trigger increases or decreases in the level of effort they put forth. To do this, he first recruited over 2,000 people through Amazon's Mechanical Turk platform.

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Participants were asked to complete two rounds of a data entry task: entering the correct bibliographic information for academic articles. They were paid a piece rate for each correct entry. At the end of the first round, some of the participants were shown their earnings and also those of others performing the task, while others were given only their own earnings information. In the second round of work, participants who were shown their earnings relative to others worked harder and significantly increased their performance. The performance gains were especially great among those who were ranked high after the first round of work; high performers worked harder to stay high performers.

Taken together, these two studies suggest that not only does pay secrecy put a damper on individual performance, but also that revealing pay information can actually increase performance, especially among top performers.

Outside of the lab, those are lessons more and more companies have learned as they move toward greater transparency.

Consider the case of social media analytics company SumAll, which since its founding has openly shared salary data among its employees. Dane Atkinson, its founder, wasn't always a transparency champion. Before SumAll, he'd worked for and lead multiple companies with

pay secrecy. Many times he had been able to pay two people with the same qualifications vastly different salaries, simply because he negotiated better with one person than another. It never seemed to work out the way he'd hoped. He saw distraught coworkers becoming angry at each other and at the company when they found out how much their salaries differed from their peers' salaries. So now, when new employees join, they are assigned to one of nine salaries, all fixed based on the position. The salaries range from around \$35,000 to \$160,000. Salary raises are tied to market conditions and to company performance. Every employee's name and corresponding salary is posted on the company's internal network, where any employee can view it at any time. If an employee looks at what he is paid compared to similar positions, then he can bring it up with his boss. If a new employee is brought on at a higher rate, older employees can have a conversation about it and find a fair resolution.

In fact, that exact situation has happened at SumAll. An engineer at SumAll was on a three-person panel to interview a new hire and discovered that the candidate was going to be offered more than he himself was making, despite having less experience. So the engineer brought it up to Atkinson and others, saying that he felt this wouldn't be fair. SumAll responded by raising his salary.

And SumAll isn't alone in the technology sector. Even before SumAll was founded, social media management company Buffer was already practicing transparency—no only sharing salaries among employees but posting them on the Internet for anyone to see. In addition, Buffer posts its salary calculator, so anyone can see the formula they use to determine paychecks. Even before publishing salaries, Buffer openly shared its revenues and the number of its users with the public, as well as monthly progress reports. Inside the company, employees openly share their self-improvement plans with everyone, and every email sent between two people on the team is stored on an email list that anyone in the company can access.

At the time salaries were made public, there were only fifteen people working at Buffer. What is clear, however, is that when Buffer does need to add more employees, it won't have a hard time finding people. In the month after making salaries public, Buffer received more than double the normal number of applications, going from 1,263 in the thirty days before Gascoigne's post went live to 2,886 in the thirty days afterward.

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But even before Buffer, and even before the idea for Buffer, the tens of thousands of employees at Whole Foods Market have had transparent salaries. For decades now, Whole Foods has allowed employees to look up performance data for departments and stores and the salaries of every employee in the company. Founder John Mackey started the policy in 1986 after keeping salaries secret became more trouble than he felt it was worth. In fact, pay and performance data is shared so broadly at Whole Foods that the SEC considers employees insiders for the purpose of stock trading.

The research and various examples of pay transparency reveal that is clearly not one size fits all. Different organizations experiment with transparency differently. So you don't have to issue signs for all employees to write their salary on nor do you have to make your own sign and be the only one wearing it. But we can all take steps towards greater transparency.

So do you know how your pay compares to your peers?

Probably not... but why not? 🤔

Info



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ABOUT THE AUTHOR | David Burkus is a best-selling author, an award-winning podcaster (as host of the [Radio Free Leader](#) podcast), and management professor. In 2015, he was named one of the emerging thought leaders most likely to shape the future of business by Thinkers50, the world's premier ranking of management thinkers. His latest book, *Under New Management*, reveals the counterintuitive leadership practices that actually enhance engagement and drive performance in companies. He is also the author of *The Myths of Creativity: The Truth About How Innovative Companies and People Generate Great Ideas*.

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