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The new age of pay transparency

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Abstract A new age of pay transparency began on January 11, 2016, when Executive Order 13665 took effect. Applying to employers who have contracts valued over $10,000 with the U.S. government, the order prohibits them from retaliating against employees for disclosure and discussion of compensation information. This effectively increases pay transparency for an estimated 20% (28 million workers) of the labor force. As a result, the difference in pay between men and women and between white and minority employees is now under increased scrutiny. This article aids employers in this new era of heightened attention to their compensation practices. We begin with an overview of the current dimensions of pay gaps in the U.S., providing a societal level perspective. Pay transparency is emphasized as a means to help narrow earnings gaps at the firm level. Legal, regulatory, and social aspects of pay disclosure are discussed and employers currently using pay transparency are highlighted. We also present management responsibilities and practices for the new age of pay transparency.

1. Pay transparency: A challenge and an opportunity

The legal and regulatory environment of the U.S. supports pay transparency—that is, openness about the pay of workers—yet many private sector employers continue to discourage or avoid discussions about pay among their labor force. Implementation of Executive Order 13665 opened a door to greater pay transparency for millions of federal contract workers beginning in 2016. Although U.S. laws prohibit discriminatory pay based on gender, race, and ethnicity, persistent pay gaps exist (BLS, 2016). The gender wage gap is defined as the difference between male and female earnings, with female earnings expressed as a percentage of male earnings (AAUW, 2014). Racial and ethnic wage gaps are based on similar comparisons with the earnings of white males. The size of and reasons for these gaps is generally based on studies of median pay levels across a full range of occupations in the U.S. economy. The real focus for employers is their own

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organization; regardless of the employer's approach to pay transparency, pay gaps may or may not still exist. Pay transparency can be viewed as an important step toward narrowing a gender, racial, or ethnicity-based pay or earnings gap, should one exist in an employing organization.

In this article, we aim to help managers navigate this new age of pay transparency. We begin by describing the concept of a pay, wage, or earnings gap and review the factors that may account for such a gap. These factors explain a substantial portion of the gap, leaving that which is unexplained to include discrimination (Blau & Kahn, 2007; Borass & Rodgers, 2003). Pay discrimination is supported by pay secrecy and is more difficult to sustain under conditions of pay transparency. There are legal and regulatory issues related to pay transparency in the U.S. that most employers should follow and that many will be required to comply with in coming years. Social factors are contributing to interest in pay transparency among employees, especially younger workers. Pay transparency can impact employee morale and motivation and should therefore be carefully implemented and managed. We highlight employers who lead in pay transparency as examples of openness in today's organizations. Recommendations are offered for employers and managers who want to be properly equipped in the new age of pay transparency.

2. Pay gaps in the U.S.

Much has been written about the differences in women's and men's earnings. The inequity of pay between men and women is described in published reports (Pew Research Center, 2013; World Economic Forum, 2013) and the related literature (Blau & Kahn, 2007; Lips, 2013; Stickney & Konrad, 2007). When compared to white, non-Hispanic males, white women working full time earn 80% of what men earn in the U.S. (BLS, 2016), implying a gender pay gap of 20%. This percentage varies depending on which snapshot of the economy is used, but it is generally close to this number based on the most recently available data. When we examine the data in terms of race and ethnicity, wage disparity is greater (National Women's Law Center, 2013). Compared to the same group of white males, Black/African American women earn 67% and Hispanic/Latina women earn 61% of what white men earn (BLS, 2016).

There are other pay gaps in the U.S. economy that are not as widely scrutinized. Consider, for example, pay differences within racial or ethnic groups wherein Black/African American women earn 92%, Hispanic/Latina women earn 84%, and Asian women earn 80% of their male counterparts' earnings (BLS, 2016). Within gender groups, Black/African American men working full time earn 72% of what white men earn (BLS, 2016). Thus, pay gaps do exist for various groupings in our economy and explanations for these differences vary. The focus of this discussion will be on the gender pay gap, simply because the research is more extensive. Some of the factors identified in this work may be helpful in understanding pay gaps for other groups.

It is uncertain how much of the gender pay gap is attributable to discrimination as compared with other factors. Dey and Hill (2007) state that the only way to establish discrimination as a reason for pay differentials is to eliminate the other possible explanations. In an attempt to do this, Blau and Kahn (2007) provide a breakdown of the factors causing the gender wage gap including occupation, industry, labor force experience, union status, and race/ethnicity, leaving an unexplained portion of 41%. To be clear, this suggests that 41% of the 20% gender pay gap would possibly be accounted for by discrimination. A more recent research study for the U.S. Department of Labor (CONSAD, 2009) narrows the unexplained portion when it identifies key explanatory variables for the gender wage gap, which include: occupation; human capital development (education); work experience; career interruption; motherhood; industry sector factors; full-time versus part-time work; and total compensation packages including fringe benefits of value to women, family friendly policies, and job tenure.

The researchers concluded that the remaining portion of the gender wage gap that could be attributable to discrimination is 4.8%—7.1% of the overall 20% gap (CONSAD, 2009). These and other studies demonstrate that several factors can help to explain the gender pay gap and that one of them is most likely discrimination (Goldin, 2014; Newman, Gerhart, & Milkovich, 2017). It is important to understand that based on aggregate data across the U.S. economy, the 20% difference in pay between women and men is due to a number of factors that may include discrimination. Discrimination may be direct (e.g., specifically against a person's gender) or indirect (e.g., related to social forces that affect career and life choices).

The gender pay gap has been narrowing at the societal level over the past few decades but has remained relatively constant in recent years (World Economic Forum, 2013). However, it varies in size according to the way in which data are analyzed (public versus private sector, full versus part time, hourly versus weekly or yearly wages, and mean versus median statistics). Some researchers have identified that the gender pay gap tends to widen over time, observing that 1 year after college graduation it is around 7% (Wallace, 2014), and it increases to 12% over 10 years (Dey & Hill, 2007). This increase in the gap over time may be due to factors related to choices made by employees described below.

Direct discrimination, wherein women are treated less favorably than men, is impossible to measure directly with the kinds of societal-level data used in calculating the gender wage gap. In fact, some authors claim that macrodata about women and men in the general economy, when accompanied by explanatory variables, fail to support a gender pay gap at all. For example, Tobak (2011) noted that men are more likely to choose careers in high-paying fields with work that is more dangerous, uncomfortable, undesirable, requiring work on weekends and evenings, and in higher-stress or higher-paid areas of specialization, which can account for the pay gap. Thomas (2010) acknowledged the legitimate factors that account for wage differences already cited by others and previously in this article and added personal choices made by women such as career interruptions, willingness to negotiate, compensation expectations, and cash-versus-benefits tradeoffs to explain the wage gap. Thomas (2010) asserted that general pay differentials by gender cannot automatically be attributed to discrimination.

From the literature, we conclude that macro data comparisons do indicate pay gaps, that there are various causes for these gaps, and that direct discrimination may be a factor—but the extent to which this is the case should be determined at the firm level within each employing organization. Employers may further want to consider any of the factors described in this article as possible explanations for differences in pay within their own organizations. There are actually other variables that may also account for pay differences. For example, studies identify correlates to earning power such as height (Judge & Cable, 2004), weight (Bento, White, & Zacur, 2012), and attractiveness (Hammermesh & Biddle, 1994; Mobius & Rosenblat, 2006) which, when accounted for, may further narrow wage gaps in particular employment situations.

3. Pay transparency

To fully understand the issues surrounding pay transparency, there are a number of terms that must be defined. *Pay transparency* is "the extent to which employees are familiar with each other's pay levels" (Hartmann & Slapničar, 2012, p. 2), and it results from the employer's compensation philosophy and resulting pay practices (KnowledgePay, 2012). A range of options exists for pay transparency, and these options can be viewed in a continuum. At one end of the transparency continuum is *open pay*, the full disclosure of each organization member's pay by name (Burroughs, 1982; Gomez-Mejia, Balkin, & Cardy, 2010), while pay secrecy lies at the other. *Pay secrecy* is "a restriction of the amount of information employees are provided about what others are paid" (Colella, Paetzold, Zardkoohi, & Wesson, 2007, p. 56). It is a function of the employer's explicit or implicit policies about the disclosure of compensation information.

Pay confidentiality refers to actual "workplace rules that forbid employees from discussing wages with each other" (O'Neill, 2010, p. 1219), which are also known as pay secrecy-and-confidentiality (PSC) rules. As will be discussed, these PSC rules can be illegal under specific conditions. Pay secrecy is considered to be part of the reason for pay gaps (Dubuzinkis, 2010), while there is some evidence that pay transparency may reduce the gender wage gap (Hegewisch, Williams, & Drago, 2011). Pay transparency in employing organizations can provide critical information to employees and compensation decision makers that can help to narrow any direct discrimination contributing to the gender pay gap.

There are certain employee groups for whom transparency already exists. For example, disclosure of compensation for particular executives of publicly traded companies is required by securities regulations in the U.S. (Edwards, 2005; Point & Tyson, 2006). Public sector employees are accustomed to having salary grades and sometimes individual salaries reported in the public record as required by law. For example, the salary range for federal worker pay grades is available online for over 1 million workers (Federal Jobs, 2016). Union contracts may specify wage rates for certain jobs, thereby enabling employees who are union members to know their own pay and that of coworkers. The focus of this article is to provide private employers in non-union situations with information that can be helpful in their management of employees serving in any capacity in the organization.

4. Pay secrecy policy

Traditionally, it has been the policy of most employers to discourage talk about pay or even require that employees not reveal their salaries to other employees (Lawler, 1966; Mahoney & Weitzel, 1978; Milkovich & Anderson, 1972). Pay communication, and specifically pay transparency, has received increased attention in the past 2 decades. Studies conducted in 2003 on Fortune 1000 firms indicated that open pay information was then available in fewer than 4% of firms in the U.S. (Lawler & Mohrman, 2003). In the private sector in the U.S., a 2010 report noted that pay secrecy is still common. Indeed, 61% of employees are either discouraged or prohibited from discussing wage and salary information (Dubuzinkis, 2010). Yet, in a recent survey of 100 HR professionals in various industries, close to 55% favored some form of salary transparency for their firms (Patton, 2015). These recent studies reveal that although private sector employers may discourage pay transparency today, their HR managers are viewing this issue differently.

Despite legal restrictions on PSC clauses and practices, many private sector employers continue to limit pay discussions and disclosure. Justifications for this limitation include a desire for employee privacy (Bierman & Gely, 2004), as well as a vehicle to reduce conflict in the workplace, labor-market mobility (employees unhappy with perceived pay inequity might look elsewhere for employment), and more freedom for employers in making compensation decisions (O'Neill, 2010). Pay secrecy allows organizations to maintain pay inequities or to correct them without having to face an employee's negative reactions to the inequities (Gomez-Mejia & Balkin, 1992). The most critical reason for pay secrecy is that it discourages employees from making comparisons with coworkers (Day, 2007). Employers also fear that a new or revised pay scheme arising from transparency could cost more money (Burroughs, 1982). Some employers feel that the benefits they receive from pay secrecy outweigh the threat they may encounter from legal restrictions in this area. Employers who do not contract or subcontract with the federal government may not want to move toward pay transparency for reasons listed above. However, they may want to think about how to transition in that direction for the future as they find other employers in their labor market being more open about pay.

5. Pay secrecy and the law

PSC rules are restricted by law in the U.S. Both employer explicit rules and informal employer policies about pay secrecy are covered by Section 7 of the National Labor Relations Act of 1935 (NLRA), which protects the rights of most employees—whether represented by a union or not—to engage in "concerted activity for the purpose of . . . mutual aid or protection" (Bierman & Gely, 2004, p. 172). The National Labor Relations Board (NLRB) held in 1997, and the federal courts affirmed in 2000, that discussions among employees regarding their wages represent "protected concerted activity" per Section 7 of the NLRA (Bierman & Gely, 2004, p. 168). Thus, coworkers in the U.S. may discuss pay without having to demonstrate a context of pay discrimination and employers may not put rules in place to stop this. If an employer is found to be committing an unfair labor practice in reference to PSC rules on the basis of an allegation submitted by an employee or union, the NLRB will issue a cease-and-desist order and take any necessary affirmative action such as reinstatement and back pay with interest (O'Neill, 2010). However, without an initial complaint by an employee, the NLRB does not pursue PSC rule cases and "the vast majority of non-union employees do not realize that the Act (NLRA) provides them with protection" (Gely & Bierman, 2004, p. 149). In conclusion, protection for discussions about pay with coworkers exists but many employees do not understand this.

In the U.S., the most recent legislation dealing with pay transparency is the Lilly Ledbetter Fair Pay Act enacted in 2009 in response to a Supreme Court ruling against Mrs. Ledbetter. The facts of the case, which formed the basis of the Act, have been used by supporters of salary transparency to argue that pay inequities would be reduced by requiring companies to practice pay transparency. In 1979, Ledbetter was hired by Goodyear Tire and Rubber Company, which maintained a salary secrecy policy. As she was about to retire in 1998, she found out that her salary was significantly lower than that of male colleagues of equal or lesser tenure and title (National Women's Law Center, n.d.). Ledbetter filed a pay discrimination claim under the Equal Pay Act of 1963 and Title VII of the Civil Rights Act of 1964. The Equal Pay Act of 1963 prohibits employers from discriminatory pay practices on the basis of sex by paying female employees less than male employees for equal work on jobs that require the same skill, effort, and responsibility that are performed under similar working conditions. Exceptions can be made where there is a pay difference between male and female employees as a result of seniority, merit, or a pay system that measures earnings by quantity and quality of production or arising out of a factor other than sex. Title VII of the Civil Rights Act of 1964 makes it an unlawful employment practice for an employer to discriminate against any individual based on race, religion, color, sex, or national origin with respect to compensation, terms, conditions, or privileges of employment.

The U.S. Supreme Court ruling kept Ledbetter from receiving damages for it claimed that the statutory period established by the Equal Employment Opportunity Commission (EEOC) for filing a claim began with the first discriminatory paycheck. The Lilly Ledbetter Fair Pay Act of 2009 provides that each discriminatory paycheck constitutes a new act of discrimination that resets the 180-day limit to file a claim making it possible for more employees to seek relief for discriminatory pay. However, they must first discover the problem, which the Act does not address, and there is a recovery limit of 2 years for back pay so employees may not receive the full compensation to which they should be entitled (Ramachandran, 2012). This is an example of a firm-level case in which a significant pay gap did exist that was based on gender. The case illustrates that pay disparity can be fostered by pay secrecy, the "workplace norm of pay secrecy facilitates and conceals pay discrimination against women" (Eisenberg, 2011, p. 958).

The prevalent practice of pay secrecy keeps employees from being able to determine whether they are being compensated fairly. Under current law, employees have to first find out that they are inequitably paid and then they have the burden of bringing suit against the employer. This can be both expensive and emotionally draining. While U.S. law has upheld that discussions of pay information are protected under the concerted action provision of the National Labor Relations Act and that this section of the law affords protection against employer retaliation, the reality of the situation is that many employees do not know their rights on this issue. Additionally, if employers take retaliatory action against employees, the employees will have an enormous legal, financial, and emotional burden in defending their rights.

6. Executive orders and new age of pay transparency

In addition to laws described above, new measures in support of pay transparency have come from the executive branch of the U.S. government. Historically, President Johnson in 1965 signed Executive Order 11246, which has been strengthened over time to protect workers employed by federal contractors from discrimination on the basis of race, color, religion, sex, sexual orientation, gender identity, or national origin (U.S. Department of Labor, 2015). President Obama amended this on April 8, 2014, when he signed Executive Order 13665, which applies to federal supply, service, and construction contractors and subcontractors, prohibiting them from discharging or discriminating against employees for discussing their own or others' compensation information (U.S. Department of Labor, 2016) acquired "through ordinary means such as conversations with coworkers" (Schoenfeld, 2015a). This provides broader protection than the NLRA discussed previously because it extends coverage to management employees and to employees of industries such as agriculture, railroads, and airlines, which are exempt from the NLRA (Schoenfeld, 2015a). Further, it gives employees another way to deal with wage-disclosure retaliation claims through the Office of Federal Contract Compliance Programs (OFCCP) in addition to the NLRB. The new Executive Order requires that the equal opportunity clause in federal contracts be amended to include that "federal contractors and subcontractors must refrain from discharging or otherwise discriminating against, employees or applicants who inquire about, discuss, or disclose their compensation or the compensation of other employees or applicants" (U.S. Department of Labor, 2016). Compensation is broadly defined as direct pay, overtime pay, fringes, stock options, profit sharing, and retirement benefits (Schoenfeld, 2015a). The executive order also includes more strategic information such as pay surveys, job analysis, job descriptions, labor union agreements, and contractor's statements regarding the setting of employee compensation (Schoenfeld, 2015c). Further, federal contractors must include a nondiscrimination provision in employee manuals or handbooks and disseminate this information to employees and job applicants (Schoenfeld, 2015c). There are two defenses for contractors against possible violations of the pay transparency rule:

1. *Essential job functions*. For example, an HR manager may have access to compensation data but also has a duty to protect this information from disclosure unless responding to a formal process (Schoenfeld, 2015b).

2. *General or workplace rule*. For example, a rule about the length of break time applies even if the employee stayed away from the job too long because he/she was discussing pay with a coworker (Schoenfeld, 2015b). This coverage extends to approximately one fifth of the U.S. labor force, approximately 28 million workers (Friedman, 2014).

On that same day in April 2014, President Obama signed a memorandum to Labor Secretary Perez "directing the Department of Labor (DOL) to issue regulations that would require federal contractors to report summary employee compensation data, including [subdivisions] by race and sex" (Casuga, 2014). The result of this is that the Equal Employment Opportunity Commission (EEOC) and DOL/OFCCP have worked together to propose a way to collect pay data from all employers with 100 or more employees by revising the already required annual Employer Information Report (EEO-1) (EEOC, 2016a). This report collects data about employees' ethnicity, race, and sex for 10 job categories. Starting in 2017, the plan was to also collect data based on employees' W-2 earnings and hours worked, aggregated into 12 pay bands that are used by the Bureau of Labor Statistics (EEOC, 2016b, 2016c). Employers would be asked to count and report the number of employees, by category, in each pay band. This plan remained open for comments until August 15, 2016 and is expected to take effect with EEO-1 Surveys for 2017, which will be due March 31, 2018 (EEOC, 2016b). Pay band data will allow the EEOC and OFCCP to look at pay disparities across industries and occupations that may warrant further investigation, use this data to focus investigations, and evaluate complaints (EEOC, 2016c) while preserving the privacy of individual employees. Employers will be able to use this data to look at their own pay practices and compare their compensation in relation to aggregate data that will be provided by the EEOC by region and industry, preserving confidentiality for individual employers (EEOC, 2016c).

7. Forces supporting pay transparency

There are professional, social, technological, labor market, and compensation research forces at work that are contributing to increasing pressure for pay transparency. Professional development in the field of human resource management increasingly focuses on ethical literacy as applied to human resource practice. The Society for Human Resource Management (SHRM) promotes ethical practice for HR professionals globally through its code of ethics and extensive education network. Both SHRM and WorldatWork, a global HR organization, provide resources related to pay transparency on their websites. Pay transparency can be viewed as an ethical issue as it pertains to the fair treatment of employees.

Social forces promote the sharing of pay information. Recent trends support the view that the sharing of and discussion of salary information is losing its taboo status, especially among the Millennial Generation. Williams (2008) has asserted that for many young professionals, the don't ask/don't tell etiquette of previous generations seems like a relic. For these individuals, salary information is shared among friends as a way to prosper in career progression. A recent *New York Times* op-ed piece favored posting of salaries as a way to "give employers and employees a chance to begin discussing wages as responsible adults instead of as . . . owner and beggar" (Reed, 2007, p. 1).

Technology also facilitates pay disclosure. In recent years, the internet has made knowledge of salaries more accessible to employees (Eisenberg, 2011). Many companies are secretive about salaries, but their employees are less so. As such, availability of salary information is becoming more common. Websites such as Salary.com, Payscale.com, and Salaryscout.com let people post salaries and show what others are making for comparable positions (Penttila, 2009). The website Glassdoor assists in job search, evaluation of companies, and provides an opportunity to voluntarily post salary information. Indiviglio (2011) stated that:

> Salary transparency will be an interesting trend to watch over the next few decades. We could see a dramatic shift in its favor since the Facebook generation has a far more liberal attitude toward sharing information than previous generations so that as it begins to dominate the workforce, more pay disclosure could become very common.

With regard to labor markets, Eisenberg (2011, p. 958) stated that "pay discrimination should be viewed as a market failure caused, in part, by pay secrecy and information asymmetries about market wages." When employees do not have access to information that would allow them to understand the relative value of their labor, they are unable to negotiate successfully for fair wages. Estlund (2011) argues that disclosure of pay information by employers can improve the efficiency of labor markets and make their reputations as fair employers more reliable. Thus, professional, social, technological, and economic forces are supporting the move toward pay transparency.

Research in the compensation field has demonstrated that both engagement and productivity increase when employees understand their company's system of compensation, its relation to the labor market, and their own place in the system (KnowledgePay, 2012). The literature in the compensation field supports salary transparency because it has been found to foster greater trust in management, enhance employee engagement, encourage extra effort by employees, reduce turnover, and contribute to competitive advantage in the labor market (KnowledgePay, 2012). Other benefits of salary transparency for the organization include enhanced employee understanding of the business, a culture of trust, collegiality, openness as employees and managers share information, and the ability to create a performance-based system of compensation that is understood by all employees (Wilson, 2012).

Thus, even if not compelled by government pressure to disclose salaries, some employers may decide that these benefits are worth a move toward transparency.

We are of the opinion that salary transparency can be an important step in addressing the ethical issue of pay inequities, particularly those based on race, ethnicity, or gender. Salary transparency can be defined as essentially an open pay system whereby employees have access to pay information regarding what they and other employees earn. Prior to creating an open system, the employer's compensation professionals must do a complete analysis of the current system including an audit of pay by position and by race, gender, and ethnicity and make adjustments where indicated. Once this has been done, the fact that other employees earn more for the same or similar work does not necessarily mean that a grievant is in fact entitled to an increase in pay. Once pay inequity is suspected, a second stage process must be in place by the employer and its human resource management officers to ascertain whether the inequity is in fact discriminatory or is based on reasonable differences in seniority, merit, hours worked, education, special certifications, working conditions, or other valid differentiators. The employer must be prepared to explain these factors clearly to the employee and to assure him or her about the steps that could be taken to achieve pay increases in the future for valid reasons such as increased education, specific types of experience within the firm, work on special projects, promotions, or leadership experience. Compensation practices that are readily understandable; perceived as fair (Blancero & Dyer, 1996); accompanied by direct, honest, respectful communications; and supported by appeal procedures (Cloutier & Vilhuber, 2008) enhance employee trust that the employer is behaving in an ethical manner (Bamberger & Belogolovsky, 2010; Grant, Christianson, & Price, 2007).

8. Whole Foods, Buffer, and SumAll

Based in Austin, Texas, Whole Foods (2017a) is a supermarket chain with 420 stores in the U.S., 11 in Canada, and 9 in the U.K. Founded in 1980, it now has 85,000 team members and is the eighth largest food and drug store in the U.S. One of its eight core values is "We Support Team Member Happiness and Excellence" (Whole Foods, 2017b). In the description of this value, the self-directed team is framed as the fundamental work unit and it is reiterated that every team member (employee) belongs to a team. Whole Foods (2017b) supports "team members' right to access information that impacts their jobs. Our books are open . . . including our annual individual compensation report." Every employee can see what every other employee earns by name. In an interview, cofounder and co-CEO John Mackey talked about the advantages of pay transparency, noting that it clears up situations in which people think others are making far more than they really are, it creates a greater sense of justice among employees, it helps direct people in their career choices because they can see the paths that lead to higher salaries, and it creates a greater sense of solidarity in the team. He noted that "we live in a transparent world . . . you are better off just opening up to it" (Mackey, 2013). In his blog, Mackey (2010) says: "Creating transparency and authentic communication is an ongoing challenge that every organization faces. We must continually strive to remove the barriers that prevent them, knowing that we can't maintain high levels of organizational trust without transparency and authentic communication." Armed with this information, team members may question why their pay is different and managers are expected to be able to explain this for valid reasons.

Buffer, a social media sharing management firm founded in 2010, has a core value of transparency. Cofounder Joel Gascoigne introduced the open salary policy in 2013 by providing the salary formula (job type as a base modified by seniority and experience with a location adjustment and a salary/equity choice worth $10,000) and listing all 34 individual salaries by first name, available on the web. In 2015, a revised formula was posted which begins with a role value for the position including base, location, and cost of living multiplied by a factor related to market conditions, a multiplier for experience, a loyalty factor, and a choice of salary versus equity to explain 65 individual salaries. Buffer has created a formula it calls the Good Life Curve, which "adjusts for the cost of living and the market influence of salaries for different roles" (Gascoigne & Widrich, 2015) in different geographic locations so that wherever a Buffer teammate might work, the salary can be equitably compared to the salary of the same role in any other Buffer location. Buffer's creative approach to compensation demonstrates transparency in the listing of specific salaries of individuals as well as in sharing a formula by which team members can understand how their roles are valued. Elmer (2014) reported that after this posting, Buffer was inundated with résumés. Gascoigne and Widrich (2015) reported that "it's been incredible to see how many companies have adopted our formula or a similar open formula, and it's a privilege to be a small part of the larger conversation around pay transparency and equality." Buffer's approach has earned them a loyal team and a respected place in the market for talented people who are drawn to innovative firms with open, honest communication and pay transparency.

SumAll is a data analytics firm that was founded in 2011. Dane Atkinson, one of its cofounders and chief executive, noted that all salaries are disclosed but not posted on the web because some team members "didn't want the whole world knowing what they make" (Tugend, 2014, p. B5). The 50 or so team members help small firms to analyze their data in order to understand and reach customers and grow their businesses. Atkinson feels that when pay is open, discussions can take place about differences in pay and how to equalize salaries with others. He believes that, under these conditions, money goes to those who work hardest rather than those who negotiate better (Tugend, 2014).

9. Moving forward: What managers may do

Human resource managers and compensation decision makers face challenges in the new age of pay transparency. It is their responsibility to be aware of legal and regulatory requirements at the federal level as well as any in their state or local jurisdictions that may apply to compensation. They should work to identify any wage gaps that may exist in their organizations, understand the factors that relate to those gaps, monitor the forces for pay transparency that apply to their labor market, competitors, employees, and industry, and decide how best to work toward some measure or demonstration of pay equity to be ready for greater pay transparency. Human resource professionals will need to have well-developed explanations for how pay is determined in their organizations and have mechanisms in place to address pay equity issues in such a way as to minimize organizational conflict and enhance employee morale.

One example of how to do this comes from the Chartered Management Institute (2015), which has advocated that employers publish aggregated statistics on the percentage of women in junior, middle, and senior levels in the organization and the pay for women and men at similar levels. Average pay for men and women in job categories and posted salary ranges for job categories are transparent mechanisms for closing the gender pay gap. These same measures could also be applied to race and national origin or ethnicity gaps in the organization. Alternatively, an employer might publish the formula used to determine salaries along with pay ranges for various positions (Ashton, 2014). Ramachandran (2012, p. 1074) proposes a transparency defense for employers charged with pay discrimination which would include evidence that the employer made salaries transparent within the organization—for example, on an intranet site for employees—and that the employee "failed to voice objections to any suspected or alleged discrimination in a timely fashion." The possibility of such a defense could provide further incentive for employers to move toward pay transparency, helping to offset any concerns over the cost consequences of pay disclosure.

Environmental forces supporting transparency will only grow stronger as the compensation of one-fifth of the U.S. labor force, working for federal contractors and subcontractors, will be subject to EEO reporting requirements and government agency scrutiny. Employers will not want to be seen as paying the lowest wages nor will they want marked pay disparities to be identified. Social media is making it possible for employees to post and compare their salaries, putting added pressure on employers who want to recruit the most qualified workers. There are various approaches to transparency, ranging from none at all to full disclosure of each employee's salary by name either published internally to the organization only or fully disclosed on the web. The compensation philosophy is "a set of organizational values and beliefs that serve as the foundation of all decisions about pay" (KnowledgePay, 2012). Each firm will need to consider where the organization's philosophy will place it along the range of transparency options. Given the ease of information accessibility, it is generally advisable to lean toward providing more information rather than less in today's workplace environments.

There are three main focal points affecting pay in organizational life: entry from the labor market, performance evaluations for compensation, and promotions. Decisions at each of these points should be based on careful job evaluation to determine the relative worth of the jobs in the organization, which are in turn based on current, accurate job descriptions. Each of these decisions should be made without regard to the gender, race, or national origin of those who have typically held these jobs in the past in this organization.

9.1. Entry from the labor market

For entry jobs (whatever the organizational level), market rates for those positions are going to be key in recruitment. Data on market rates is available from industry and professional organizations, government listings, salary surveys, and salary websites. Offers should be based on the value of the position to the organization and the value that the candidate brings rather than on what the candidate earned in a previous position (Ashton, 2014).

9.2. Performance evaluations for compensation

For performance reviews leading to pay adjustments within an organization, comparisons will be more important. In order for the pay allocation process to be perceived as fair, there should be an opportunity for the employee to learn how merit decisions will be made and to present supporting information to his/her supervisor for consideration in preparation for any formal evaluation. The evaluation criteria (used in performance appraisal and compensation decisions) should be clearly articulated to employees at the beginning of the evaluation timeframe. Evaluation criteria should be relevant to the duties of the job and applied consistently to all employees. The criteria should be flexible enough to account accurately for each employee's contribution to the organization. Decision makers should discuss their evaluations and intended pay adjustments with others at their level in the organization and provide evidence for their recommendations prior to finalizing them. Process is important to employees and if the process is perceived to be fair, just, and appropriately related to the employee's organizational level, then management will be perceived positively, morale will be enhanced, and conflict will be minimized (Mulvey, LeBlanc, Heneman, & McInerney, 2002).

9.3. Promotions

For promotion decisions, market rates and internal equity will need to be considered and the decisions will need to be monitored to ensure that they are free from bias. Regardless of the compensation decision point, it is recommended that the organization specifically identify who is accountable for equitable pay in the organization, whether it is managers, human resource professionals, or a compensation review committee (Mulvey et al., 2002). These individuals will be charged with safeguarding fairness and being ready "to explain compensation processes and decisions to affected employees, upper management, boards of directors, and audit committees" (Friedman, 2014). This implies a need for training in best practices with diversity sensitivity for managers who will be conducting performance evaluations, making compensation recommendations, and discussing compensation with employees (Friedman, 2014). Transparency in these decisions is as much about a clearly communicated process as it is about specific compensation information.

10. Concluding thoughts

U.S. laws prohibit discriminatory pay based on gender, race, and national origin. Despite this legislation, Bureau of Labor Statistics data identifies persistent pay gaps in the U.S. (BLS, 2016). Studies of these gaps indicate that there are many reasons for them, including possible discrimination. Employers need to be aware of this information and determine whether and how it potentially applies to their own organizations.

When gaps exist, there may be an impact on both individuals and the organizations that employ them. To individuals, the impact may include depressing the wages of employees and their families who rely on those wages, as well as reducing the worker's retirement security that is largely based on earnings while in the workforce. Organizations with significant wage gaps may find that they are discouraging full, enthusiastic worker commitment.

The benefits of pay secrecy, particularly those associated with organizational control and employee privacy, are becoming less relevant with an upcoming generation that questions the type of authority that salary secrecy represents (Guthrie, 2009). Additionally, the issue of employees' concern for privacy is likely to become less relevant to a majority of employees because the Millennial Generation has come of age in an era where information is easily accessible. Another issue that may also arise, especially in this period of economic uncertainty, is the negative impact pay secrecy has on efficient labor mobility. In view of the above, while pay secrecy is still very prevalent—notwithstanding its illegality—generational trends, attitudes, government regulations, and scrutiny will make salary transparency an increasing organizational concern.

Managers who are responsible for the design of their organization's compensation practices—as well as for handling any recommendations about those practices—will want to consider the issues highlighted in this article. Pay transparency can help to redress pay inequity. It can also enhance organizational effectiveness through improved employee trust, morale, and motivation along with decreased conflict. It is a factor in the recruitment and retention of younger workers, who will increasingly prefer pay openness. It is also an issue that is supported from the standpoint of business ethics. Finally, pay transparency and its relationship to pay gaps is an issue that should be considered carefully in contemporary compensation practice.

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