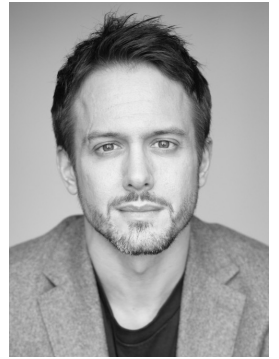
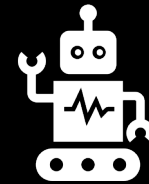


# Pay Transparency

*«Shedding Light or Sparking  
Chaos?»*



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Section 1:  
The Origins of Pay Transparency or  
«The Story of Lilly Ledbetter»



«Lilly Ledbetter Fair  
Pay Act»  
(2009)

## Section 2: Horizontal Transparency

The disclosure of salaries within the same level in a company (Cullen & Pakzad-Hurson, 2021).

- (+) Creating more fairness within companies
- (-) Higher envy, **social comparison**\*
- (-) Reduced motivation
- (-) Lower overall wages

\*«percieved inequity»!



## Section 3: Vertical Transparency

The comparison of salaries across different levels in the hierarchy (Cullen & Perez-Truglia, 2022).

(+) More motivation

(-) Less motivation (**learned helplessness**)

*...depending on the attainability of promotions*

→ Realistic career progression plans!



## Section 4: Cross-Firm Transparency

The comparison of salaries between different companies.

- (+) Empowering employees
- (+) Drives up wages in general
- (-) Smaller companies suffer bc of the competition



## Section 5: The Psychological Pitfalls of Transparency

Wage ↓ = Motivation ↓

-> Pay transparency is motivating as long as you're on the higher end of the scale

💡 *which, in turn, is based on **social comparison**...*

*...which is about status and self-worth, influenced not necessarily by objective factors but by one's psychological **perception** of reality.*

Cullen & Perez-Truglia  
(2022)

## Section 6: A Balanced Approach to Pay Transparency

### 1. Targeted Transparency:

Focus on where transparency makes sense.

### 2. Contextualizing Salary Data:

Transparency needs clear explanation.

### 3. Focus on other Long-Term Goals than just closing gaps:

Pay transparency should also aim at promoting **fairness** and **productivity** in the long run.



## Take Home Message

Pay transparency has **varied psychological impacts**, depending on whether an individual earns more or less than their peers.

It is closely tied to **social comparison**, which heavily depends on personal psychological perceptions.

Unstructured pay transparency can be like a **loose cannon**, potentially leading to chaos and fostering a "jealous neighbor" mentality.

Implementing **pay transparency requires effort!** Clear and realistic career progression plans must be developed and established («A Balanced Approach»).

**Thank you!**

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# Section 8: Sources

Cullen, Z., & Pakzad-Hurson, B. (2021).

Equilibrium Effects of Pay Transparency. NBER Working Paper Series.

This paper discusses the effects of horizontal pay transparency and its consequences for employee motivation and wage negotiations.

Phillips, M. (2009).

Now Comes Lilly Ledbetter.

This source discusses the Lilly Ledbetter Fair Pay Act and its significance in the context of wage discrimination in the United States.

Breza, E., Kaur, S., & Shamdasani, Y. (2018).

The Morale Effects of Pay Inequality. *The Quarterly Journal of Economics*.

This study explores how horizontal transparency can negatively affect morale and productivity due to social comparison.

Card, D., Mas, A., Moretti, E., & Saez, E. (2012).

Inequality at Work: The Effect of Peer Salaries on Job Satisfaction. *American Economic Review*.

This source looks into how peer salary transparency impacts job satisfaction and worker behavior.

Cullen, Z., & Perez-Truglia, R. (2022).

How Much Does Your Boss Make? The Effects of Salary Comparisons. *Journal of Political Economy*.

This research examines the psychological effects of vertical transparency, particularly the motivations and demotivations linked to salary comparisons across hierarchical levels.

Bennedsen, M., Simintzi, E., Tsoutsoura, M., & Wolfenzon, D. (2020).

Do Firms Respond to Gender Pay Gap Transparency? *The Journal of Finance*.

This study shows how pay transparency aimed at gender equity affects overall wage dynamics within firms.

# Section 8: Sources

Skoda, S. (2022).

Directing Job Search in Practice: Mandating Pay Information in Job Ads.

This paper looks at the effects of cross-firm transparency, where job seekers use pay information to negotiate better wages or seek new opportunities.

Caldwell, S., & Harmon, N. (2018).

Outside Options, Bargaining, and Wages: Evidence from Coworker Networks.

This study focuses on the competitive effects of cross-firm transparency, where firms respond to wage data from competitors, resulting in more competitive pay offers.

Festinger, L. (1954).

A Theory of Social Comparison Processes.

This foundational theory on social comparison explains the psychological drive behind individuals comparing themselves to others, which is critical to understanding the effects of pay transparency.

Perez-Truglia, R. (2020).

The Effects of Income Transparency on Well-Being: Evidence from a Natural Experiment. *American Economic Review*.

This study shows the impact of public income disclosure, like in Scandinavian countries, on social comparisons and individual well-being.

Seligman, M. (1972).

Learned Helplessness: Theory and Evidence.

This psychological theory explains how individuals, when they perceive goals as unattainable, may give up trying, a concept that applies in the context of vertical transparency.

Deserrano, E., Leon, G., & Kastrau, P. (2021).

Promotions and Productivity: The Role of Meritocracy and Pay Progression in the Public Sector.

This source highlights the importance of transparent progression systems for maintaining motivation in meritocratic environments.

# Section 8: Sources

Skatteetaten (2023).

Public tax records in Norway and Sweden.

This information from the Norwegian Tax Administration discusses how public tax records in Scandinavian countries are used to foster transparency and accountability.