

Thank you, Council Members. My name is Dr. Solange Charas. I am a human capital subject matter expert with a PhD in Governance, an MBA in Accounting and Finance and a BA in Economics. I have served as the top HR executive for three for-profit organizations, as a board director for two public companies, and held senior roles at EY and Arthur Andersen. I am a Distinguished Principal Research Fellow at the Conference Board and am an active member of the Technical Committee that creates and monitors human capital standards at ISO – the International Organization for Standardization. I am currently a full-time Professor of Practice at Columbia University’s Masters of Human Capital Management program. Today I stand in solidarity with PowHerNY equal pay committee and want to talk to you about the research evidence that exists related to the benefits of pay transparency for workers, organizations and the community at large.

What you’re considering today is not a new topic. In an ever-evolving human capital-centric business environment, it is frequently considered by the SEC, the World Economic Forum (WEF), and the majority of the top governance monitoring agencies like the Sustainability Accounting Standards Board (SASB), European Financial Reporting Advisory Group (EFRAG), Corporate Sustainability Reporting Directive (CSRD), International Financial Reporting Standards (ISFR) and ISO. This topic is being discussed in the boardrooms and management suites of every company in America and around the world. Transparency in all matters human capital, including the matter you’re taking up today, is a topic of great importance, not only to investors and management, but to employees, customers, and prospective employees. It is just a matter of time before organizations must be transparent in all matters, including human capital matters, and especially those in Europe and Asia – given the legislations passed in these two areas of the globe, requiring human capital reporting. This topic has been the focus of extensive research in the academic community – to study its impact on sustainable financial outcomes.

This document will address pay transparency from a research/academic perspective, providing evidence from peer-reviewed articles reflecting the rigor of the research process, showing validity and reliability in those research findings related to the varied effects that pay transparency has on business performance, influencing employee motivation, organizational dynamics, and compensation strategies.

The topics covered will include:

1. Employee Retention and Recruitment;
2. Enhanced Fairness and Trust;
3. Pay Satisfaction and Employee Morale;
4. Employee Motivation and Effort;
5. Better Monitoring and Accountability;
6. Balanced Effort Allocation;
7. Impact on Perceptions of Organizational Justice and Behavior;

## 8. Social Comparison and Pay Adjustments;

There is a preponderance of academic research that demonstrates that pay transparency is beneficial for organizations, employees and society at large. The “exercise” of reporting provides important insights for organizations to understand their performance related to pay equity issues (gender, ethnic) that they would not necessarily analyze. Research shows that transparency about organizational policies and practices to employees generate the behaviors that drive better organizational outcomes. Organizations can use transparency to improve not only human capital performance, but ultimately, business performance, as research has shown that lower attrition, higher engagement, and longer tenure positively impact business outcomes, as shown in these papers:

- “Business-unit-level relationship between employee satisfaction, employee engagement, and business outcomes: a meta-analysis”. Harter, Schmidt, and Hayes (2002). *Employee satisfaction and engagement are critical factors influencing business outcomes at the business-unit level.*
- “Top-management-team tenure and organizational outcomes: The moderating role of managerial discretion”. Finkelstein and Hambrick (1990). *Finkelstein and Hambrick's work explores how the length of time executives spend in their roles influences strategic decisions and organizational performance, with a particular focus on the role of managerial discretion.*
- “Organizational Tenure and Job Performance” Ng and Feldman. (2010). *Longer organizational tenure is generally associated with improved in-role performance and citizenship behaviors. Employees with more extended tenure tend to perform better in their core tasks and are more likely to engage in behaviors that benefit the organization, such as helping colleagues and volunteering for extra work.*

These effects are particularly important in the public sector, where there is an abundance of evidence that shows that pay transparency in the public sector is associated with positive employee attitudes, potential wage compression at higher salary levels, and a reduction in the gender pay gap.

- “Pay Transparency and Its Effects: A Comparative Analysis of Public and Private Sector.” Braje and Kuvac (2022). *Public sector employees have a more positive attitude towards pay transparency than private sector employees.*
- “Making Performance Pay Work: The Impact of Transparency, Participation, and Fairness on Controlling Perception and Intrinsic Motivation”. Wezel, Krause, Vogel. (2017). *Fair, participatory, and transparent design increased intrinsic motivation.*
- “Pay Transparency and the Gender Gap”. Baker, Halberstam, Kroft, et. al. (2019). *Salary disclosure laws reduced the gender pay gap by 20-40%.*

## Key Effects of Pay Transparency

- 1. Employee Retention and Recruitment:** Transparency can impact retention, particularly of high-performing employees, by providing them with insights into their productivity relative to peers. This can either encourage or discourage retention based on the perceived fairness of compensation.
  - According to Habibi in “**Pay Transparency in Organizations**” (2020) *increasing the firm’s value of retaining its most productive workers makes transparency more favorable.*
- 2. Enhanced Fairness and Trust:** Pay transparency helps close pay gaps, such as the gender pay gap, and reduces employee turnover by fostering a sense of fairness and trust between employees and management. It also allows employees to make more informed decisions about their career paths and compensation expectations.
  - According to Cullen in “**Is Pay Transparency Good**” (2023), *the researcher found that pay transparency policies can narrow coworker wage gaps and increase employee motivation and productivity. An additional finding, which benefits organizations, is that pay transparency can lead to overall lower average wages.*
  - In Brown, Nyberg, Weller, Strizver, “**Pay Information Disclosure: Review and Recommendations for Research Spanning the Pay Secrecy–Pay Transparency Continuum**” (2022), consistent with the theory of information asymmetry and based on research reviewed, a new integrative definition (“pay information disclosure”) anchors both current and future research. *By viewing pay information disclosure research in an information asymmetry context, with its focus on the causes and consequences of unequal access to information, their research examines motives for and outcomes of pay information disclosure benefits for individuals, organizations, and society.*
- 3. Pay Satisfaction and Employee Morale:** Increased pay transparency, such as the CEO pay ratio disclosure in the U.S., has been linked to higher pay satisfaction among employees. This is particularly true for those who previously had less access to pay information. In addition, transparency can lead to justified requests to correct pay disparities, thereby improving employee morale and reducing unjustified grievances
  - According to Carter, LaViers, Sandvik, and Xu in “**Employee Responses to Increased Pay Transparency: An Examination of Glassdoor Ratings and the CEO Pay Ratio Disclosure**” (2023), they found *evidence that the mechanism behind the observed increase in pay satisfaction is a change in*

*workers' reference wages. Specifically, there is a stronger effect on pay satisfaction for employees who had less pay information available to them through other sources prior to the disclosures. Their results are among the first to document a positive effect of increased pay transparency on employee morale.*

- In Maggio and Marandola's research "**Employees' reaction to gender pay transparency: an online experiment**" (2022), they found that *overall pay transparency does not disrupt employees' performance. They found that pay transparency increased justified pay correction requests and decreased unjustified ones.*
4. **Employee Motivation and Effort:** Transparency can affect employee motivation differently based on their relative pay standing. Employees who perceive themselves as underpaid may reduce their effort, while those who see their pay as fair or above average may be motivated to maintain or increase their performance.
- According to Avdul, Martin, Lopez in "**Pay Transparency: Why it is Important to be Thoughtful and Strategic**" (2023), *pay transparency can yield benefits such as helping to close pay gaps, reducing employee turnover, and elevating trust with management and others.*
  - According to Fan, Wu, Chen and Tang in "**The implications of pay transparency in the presence of over- and underconfident agents**" (2023), *pay transparency can entice employees to improve job performance, with the optimal payment scheme (base and incentive pay) and support recruitment strategy and outcomes.*
5. **Better Monitoring and Accountability:** Pay transparency enhances shareholder monitoring of company boards, leading to improved use of relative performance evaluation (RPE) and better alignment of compensation with company performance
- Bushman in "**Cash-based bonus plans as a strategic communication, coordination and commitment mechanism**" (2021), *emphasizes the idea that cash-based bonus plans play an important communication role in which a board's performance measure choices reveal to outsiders the firm's commitment to specific strategic objectives and facilitate the coordination of behavior across executives inside the firm. Public observability of bonus plans then provides a basis for investors and competitors to assess a firm's strategic direction, and for investors to hold managers accountable for strategy execution.*
6. **Balanced Effort Allocation:** Pay transparency enables organizations to achieve a more balanced allocation of effort among employees by allowing them to

collectively enforce fair compensation practices, which can lead to stronger employment relationships

- According to Fahn and Zonarone, in “**Pay Transparency Under Subjective Performance Evaluation**” (2021), *transparency enables the employees to collectively sanction the organization for renegeing on subjective incentives. Collective enforcement allows the transparent organization to use strong employment relationships to “cross-subsidize” weak ones, achieving a more balanced allocation of effort than under pay secrecy.*
7. **Impact on Organizational Justice and Behavior:** Pay transparency can influence perceptions of fairness and justice within an organization. While it can enhance procedural justice and reduce counterproductive behaviors when processes are transparent, it may increase negative behaviors if outcome transparency reveals pay disparities perceived as unfair.
- In SimamTov-Nachlieli and Bamberger’s research, “**Pay communication, justice, and affect: The asymmetric effects of process and outcome pay transparency on counterproductive workplace behavior**” (2020), *process pay transparency reduced counterproductive workplace behavior, while outcome pay transparency increased it.*
8. **Social Comparisons and Compensation Adjustments:** Pay transparency can reduce the level of social comparisons among employees. Given that many employees share data amongst themselves, pay transparency serves to legitimize the organization’s decisions regarding pay levels, diminishes the perception of pay biases, and supports effective information dissemination related to competitive pay. In addition, research has found that legislating pay transparency increases earnings for women, especially those with college degrees, and reduces the gender wage gap.
- According to Kim in “**Pay Secrecy and the Gender Wage Gap in the United States**” (2015), *the study finds that women with college degrees increase their pay by 3 percent in states that have outlawed pay secrecy, and reduce the gender wage gap by 5–6 percent or by 12–15 percent, depending on the specification and population of workers examined. In addition, she found that organizations that have a policy of pay transparency are able to better stay within their salary budgets as one-off salary negotiations are eliminated by salary transparency.*

## Conclusion

Salary transparency offers several benefits for organizations and employees, including promoting fairness, reducing turnover, and enhancing trust. Specifically, it is instrumental

in closing pay gaps, reducing employee turnover, enhancing trust and motivation and improving wage negotiations. The benefits extend to employees and importantly to organizations (both public and private sector) through enhanced engagement, longer tenure, more productivity, more effective recruiting, and ultimately cost containment.