

The Salary Dilemma- Is it better to know or not to know?

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The salary scandal involving administration officials for the city of Bell has created quite a stir in California. Now the Legislature, the Governor's office, the League of California Cities, and many citizens are demanding disclosure of salaries paid to public sector employees.

What does this spotlight mean for private employers? Would your employees be more or less motivated if they knew what all of their co-workers earned?

Most companies embrace *Pay for Performance* or *Competitive Pay*. If a company has correctly evaluated its positions, done solid market pricing, and designed a system that rewards based on performance, why not publish salaries for all to see?

But of course the question is more complex: we know that many people judge themselves based on how they compare to others in terms of income, title, and other benefits of employment.

A recent study* published by the National Bureau of Economic Research evaluated employee reactions to the publication of salaries at the University of California. The study measured the reaction of employees who discovered they were paid less than the average of their co-workers, to those who did not know the pay of others. They also compared the reaction of employees who learned they were paid above the average of their coworkers to similarly paid employees who, again, did not know the pay of others.

Not surprisingly, employees who **knew** they were paid lower in comparison to peers reported much less satisfaction with their jobs, and more desire to change jobs, than similarly paid employees who did **not** see the actual salary data.

Surprisingly, the employees who learned they were paid relatively high compared to co-workers did not report any greater job satisfaction or change in desire to look for another job!

We again learn that pay can be a dissatisfier but not a satisfier, and that certain knowledge of your relative pay can lead to less satisfaction, but not more.

How much information to share about your company's compensation practices becomes a balancing act: enough to encourage employees to stay, perform well, advance and grow, but not so much to create dissatisfaction. It is also depends on your organization's culture. Is it open and trusting? Is it hierarchical? What role does incentive or commission play in your program? What behaviors do you want to drive?

The amount of information you choose to share will depend on the answers to these questions. Based on those answers, you have the option of disclosing nothing more than what they make, or the range for the position, or even the range for the next level up. You may also decide to share the entire salary structure for every position in your organization ... the Full Monty as it were, but beware.

A well-crafted compensation and communication plan should enable you to reinforce your pay philosophy while avoiding the suspicion that goes with secrecy.

* Inequality at Work: The Effect of Peer Salaries on Job Satisfaction - David Card, Alexander Mas, Enrico Moretti, Emmanuel Saez

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