

Pay Transparency and Its Effects: A Comparative Analysis of Public and Private Sector

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Original scientific paper
UDK: 331.2:338.465./467
doi: 10.3935/rsp.v29i1.1705
Received: February 2020

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This paper explores employee attitudes on pay communication and pay transparency and compares perceptions from private and public sector employees. Primary research was conducted among 353 employees working in the public and private sector in Croatia. Research results indicate that employees from the public sector, when compared to employees from the private sector, showed a more positive attitude towards pay transparency, higher preference for pay transparency and willingness to communicate one's pay. Employees from the public sector perceive greater beneficial effect of pay transparency than employees from the private sector. The pay communication policy and level of pay transparency can act as additional factors that attract employees to the public or private sector and thus cause employee sorting between the two sectors.

Keywords: pay communication, pay transparency, pay openness, pay secrecy, compensation system.

INTRODUCTION

Pay communication, pay secrecy, pay openness and pay transparency are usually seldom mentioned in compensation management although they can imply both costs and benefits for the employer. Pay transparency implies that organizations publicly share pay information with employees and allow employees to exchange pay information with one another (Smit & Montag-Smit, 2018). The level of pay transparency will

depend upon the organization's pay communication strategy, which refers to the organizational practice that determines if, when, how, and which pay information (e.g. pay ranges, pay structure or individual pay levels) is conveyed to employees and whether discussions involving pay information are permitted amongst employees and outsiders (Jawahar & Stone, 2011; Marasi, Wall & Bennett, 2018). Pay communication is ranging on a continuum between the two extremes: pay openness and pay secrecy

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(Burroughs, 1982; Collela et al., 2007; Marasi & Bennett, 2016), with varying levels of pay communication about pay structure and individual pay ranges residing between the extremes and the potential to affect employee attitudes and behavior (e.g. Martocchio, 2006; Shaw & Gupta, 2007). Although organization's pay communication approach is primarily based on its needs and strategic goals (Balkin & Gomez-Mejia, 1990; Marasi, Wall & Bennett, 2018), there are some other employee-related or organization-level contextual factors that employers face and that affect pay communication, also including unionization and public/private sector origin (Ramachandran, 2012; Rosenfeld, 2017). As a form of implicit regulation and indicator of transparency, pay transparency of some kind, including full pay disclosure, is more often typical for the public sector (Gomez & Wald, 2010, Ramachandran, 2012, Estlund, 2014), and is in fact rare in the private sector.

While pay transparency is gaining popularity, it remains unclear to what extent employees actually want to exchange pay information thus creating the "pay transparency dilemma" (Smit & Montag-Smit, 2018). The motivation of this paper is to further contribute to this "dilemma" by examining pay transparency from the employee perspective. While some scarce research results indicate that employees showed an interest in receiving information about pay (Day, 2007), researchers (e.g. Marasi & Bennett, 2016) call for a better understanding of pay communication and its influence on specific employee outcomes. This paper contributes to this research gap by exploring employee attitudes towards pay transparency in Croatia, a collectivistic-oriented country (Hofstede, 2001). Specifically, this paper aims to test employee attitudes towards pay transparency and to compare employees working in the private and public sector in order to

examine possible sorting effect, namely, if employees with a higher preference for pay transparency group in the public sector. Understanding employee attitudes on pay transparency can help organizations to determine which pay communication practices should be utilized in order to attract and retain employees. This paper proceeds as follows: after defining the concept of pay transparency, possible determinants of pay secrecy are explored. This is followed by an empirical investigation of employee attitudes towards pay transparency based on a sample of 353 employees in Croatia. The results of the paper offer important insights to resolve "pay transparency dilemma" and can be used by practitioners while developing pay communication strategies.

LITERATURE REVIEW

The debate about pay transparency is grounded in several theories that support compensation issues. The effects of pay communication on individual and organizational outcomes can be mediated by organizational justice framework (Greenberg, 1987). Pay openness conditions result in perceptions of informational justice since the organization is providing complete and accurate pay information to employees in a timely manner (Colquitt, 2001; Jawahar & Stone, 2011). Limiting pay information may negatively impact informational justice (Colella et al., 2007), although pay secrecy may be more likely to elicit higher general justice perceptions than open communication (Day, 2007). Smit & Montag-Smit (2018) explain the pay transparency dilemma thorough the lens of social comparison theory (Festinger, 1954). People usually have the need to compare themselves to others, and availability of pay information creates grounds for social comparisons. Pay transparency enables employees to evaluate the input and output

ratios of relevant others in order to determine whether the effort they are expending is equitably compensated relative to their peers, as argued by the complementary equity theory (Adams, 1963). However, not all employees have the same desire to make social comparisons, and therefore some might prefer avoiding sharing information about pay (Smit & Montag-Smit, 2018).

Relatively little academic research has been conducted to explore pay communication, pay transparency, pay secrecy/openness and their effects. Previous studies have shown that pay communication increased organizational citizenship behaviors (OCBs) and reduced workplace deviance (Marasi, Wall & Bennett, 2018), increased affective organizational commitment (Day, 2012), increased individual task performance (Futrell & Jenkins, 1978; Bamberger & Belogolovsky, 2010; Belogolovsky & Bamberger, 2014), influenced inter-relating behaviors in organizations (Belogolovsky et al., 2016), improved employee retention (Mulvey et al., 2002; Belogolovsky & Bamberger, 2014), increased employee mobility (Danziger & Katz, 1997; Day, 2007) and related to job and pay satisfaction (Lawler, 1967; Futrell & Jenkins, 1978; Heneman & Judge, 2000; Day, 2007; Jawahar & Stone, 2011; Day, 2012). Nonetheless, it must be emphasized that pay communication construct has two facets, organizational and employee considerations (Marasi & Bennett, 2016), and whilst organizational considerations are somewhat explored, little is known about employee attitudes on the level of desired pay communication.

Pay secrecy

Pay secrecy implies a pay communication policy providing information only about own pay while restricting employees' access to information regarding the level of other employees' pay in the organization

(Bamberger & Belogolovsky, 2010). Pay secrecy of some kind is usually found with most organizations (Colella et al., 2007). Employers might impose written or verbal restrictions or even sanctions to the discussions on pay levels or disclosing pay with other organizational members and outsiders (Gomez-Mejia & Balkin, 1992; Gely & Bierman, 2003; Day, 2007; Belogolovsky & Bamberger, 2014). Organizations restrict pay information in two ways: regulating the amount of information shared about the distribution of employee pay or restricting employees to communicate with one another about pay (Marasi and Bennett, 2016). Since "secret" has the connotation of that something is wrong, bad, or problematic and consequently, should have detriments (e.g. Kelly, 2002), when organizations do not voluntarily distribute pay information to employees, the concealment may lead employees to believe that something is wrong with the compensation system (e.g., discrepancies exist in the pay structure) (Marasi, Wall & Bennett, 2018) or as a way for the organization to hide pay discrimination (Colella et al., 2007).

Pay secrecy has an important role in forming employee perceptions of pay equity (Colella et al., 2007). Some earlier researches have shown that employees tend to underestimate the pay of high-positioned employees, but overestimate the pay received by those at lower or the same levels in their organizations (Milkovich & Anderson, 1972) thus secrecy may lead to inaccurate perceptions of employees' pay levels and cause dissatisfaction (Lawler, 1967). On the other hand, pay secrecy discourages employees to make comparisons with other employees in the firm or with those in the job market and in such manner limits perceptions about inequity and allows organizations to correct pay inequities without employees' negative reactions and claims of discrimination (Colella et al., 2007; Day, 2007). Pay secrecy also decreases labor mo-

bility and reduces costs associated with labor transitions due to pay inequality (Danziger & Katz, 1997; Colella et al., 2007). Additional benefit of pay secrecy is avoiding or reducing conflict in the workplace because employees are unaware of pay differentials thus do not raise dissatisfaction issues (Colella et al., 2007). Pay transparency has been found to adversely affect employees' tendency to offer assistance to co-workers (Bamberger & Belogolovsky, 2017).

Employers may opt for pay secrecy due to numerous reasons, although there are at least three major costs to pay secrecy: (1) lack of information produces uncertainty for employees and an asymmetrical information status between employees and the organization, and thus employee judgments about fairness and their perceptions of trust may be sacrificed; (2) employee performance and motivation can be expected to decrease because the pay-performance link is weakened and (3) from an economics perspective, the labor market may be less efficient because employees will not move to their highest valued use due to lack of information about highest paying positions (Colella et al., 2007).

The criteria used for pay allocation and employees' relative pay status are another factor influencing organizational pay communication. Futrell and Jenkins (1978) argued that a critical variable affecting the level of pay system transparency is the ability of management to objectively measure task performance; in case that performance cannot be accurately measured and also objectively tied to rewards, then secretive pay systems may be beneficial for the company (Colella et al., 2007). Belogolovsky & Bamberger (2014) found that if pay for performance is applied, pay secrecy may hinder the firm's ability to retain top talent and is generally associated with decreased employee retention. However, according to Colella et al. (2007), high performers de-

sire pay secrecy more than low performers because such employees believe that pay secrecy will prevent them from becoming targets for conflict due to a high pay level. For individuals, pay secrecy is a manner to protect privacy; knowing what others are making might create negative emotions threatening one's reputation and/or self-concept or individuals may make "irrational" decisions (such as leaving) if they know what the others are being paid (Colella et al., 2007; Smit & Montag-Smit, 2018).

Historically favored pay secrecy practices have been steadily decreasing (Marasi, Wall & Bennett, 2018). Recent initiatives to increase pay transparency in the workplace (Marasi & Bennett, 2016; Smit & Montag-Smit, 2018) mostly see it as a helpful tool to reduce pay discrimination, and especially to close gender pay gap (Kim, 2015). As a part of its efforts to support equal pay between men and women, even the European commission adopted a recommendation on wage transparency in 2014 (2014/124/EU). This recommendation should encourage public and private employers to adopt transparency policies on wage composition and structures; such as the right of employees to obtain information on pay levels, employer reporting on pay and conducting pay audits. Furthermore, pay information is nowadays more easily found on specialized internet sites (Ledford, 2014) and as such is subject to employee interest and discussions. Nevertheless, even with the generally increased organizational openness as the consequence of participative management, pay communication to employees is still very limited and there are very few organizations with "open pay information" systems (Day, 2007).

Pay openness

On the other end of the pay communication continuum is making the information on pay and pay levels available to all em-

ployees. Pay openness at its extreme would imply organizational practices that involve distributing all pay information to employees on a regular basis, usually at specific time intervals (such as annually or quarterly) or upon request (Smit & Montag-Smit, 2018). Furthermore, in such organisations employees are allowed to discuss their personal pay information with other organizational members and outsiders. Pay openness suggests that there are no problems or discrepancies in the pay structure (given the reasons for any pay differentials are explained and they comply with the organization's methods for determining pay). Employees are likely to view openness or transparency positively (Marasi, Wall & Bennett, 2018), which positively influences employee engagement (Bamberger & Belogolovsky, 2010).

Pay communication reduces uncertainty and should promote equitable pay although empirical evidence does not unanimously support this claim. Smit & Montag-Smit (2018) found a positive relationship, but Day (2007) found that individuals exposed to more pay communication were less likely to feel that their pay was equitable. Besides pay fairness, pay openness could increase pay satisfaction (Scarpello & Carraher, 2008). At the individual level, in case of pay openness, employees with general human capital can look to the external labor market and possibly have some benefits from the information about market pay level, unlike those with firm-specific human capital that cannot benefit from pay openness (Colella et al., 2007).

Determinants of pay transparency preferences

Literature examining employee attitudes to employer sharing information about pay is rare (see Lawler, 1966a; Schuster & Colletti, 1973; Smit & Montag-Smit,

2018) and lacks finite conclusions. Early researchers indicate that employees might prefer individual compensation levels kept secret (Lawler, 1966b). Employees with higher levels of education will probably show a higher preference for pay transparency over those with lower levels of education (Schuster & Colletti, 1973; Manning & Avolio, 1985). Some differences have been found with job categories as well (Manning & Avolio, 1985). Employees who are more intolerant of uncertainty will opt for pay communication, just as employees who are concerned with managing and maintaining interpersonal relationships are less willing to share pay information (Smit & Montag-Smit, 2018).

Finally, institutional differences between the public and private sector can also have an impact on features of pay communication (Perry, Engbers & Jun, 2009; Ramachandran, 2012). Colella et al. (2007) showed that private sector organizations which successfully use performance-related pay rely on secrecy to sustain their systems, which contradicts recent requests for increased pay transparency and especially transparent pay for performance systems. Public sector companies' employees can have relatively realistic expectations and information about pay prior to their employment as well as pay expectations during their employment. On the other hand, in the private sector salaries are often negotiable, higher, including pay for performance schemes and from employee perspective they are often seen as less transparent than in the public sector. Additionally, some previous researches have shown that risk-averse individuals group in the public sector (Pfeifer, 2011) as pay transparency as such offers some level of security.

Taking into consideration previous research findings and discussions about pay transparency, the research question in this paper is how pay transparency is seen by

public and/or private sector employees and is there any difference between the private and public sector. In order to test the importance and role of pay transparency two hypotheses have been set:

H1: Employees in the public sector show higher preference for pay openness than employees in the private sector.

H2: Perceptions of pay transparency outcomes significantly differ between public and private sector employees.

METHODOLOGY OF RESEARCH

Sample and procedure

Participants to the survey were employed individuals recruited through snowball sampling with a total of 353 respondents to the survey. When selecting participants for the study, a non-probability sampling technique was applied by using researchers' personal and professional contacts. Participants received an e-mail invitation containing the link to the survey. Due to a large size, it was not possible to measure the whole population, so a sample of $n=353$ was acceptable on the grounds of acceptance for statistical analysis in social sciences (Lakens, 2021).

Measures

In most cases measuring pay communication has been left to researchers and scales have been developed for specific research (e.g. Day, 2007), although some scales have been developed and validated for general purposes (e.g. Noy, 2007; Marasi, Wall & Bennett, 2018), or as a pay communication preferences scale (Smit & Montag-Smit, 2019). Based on these, the survey instrument was a 13-item questionnaire developed for this research, consisting of items aimed at measuring pay transparency, desirability of pay trans-

parency and employee-perceived individual and organizational outcomes of pay transparency. In order to assure mutual understanding of the research, the questionnaire contained an explanation of the "pay transparency" construct.

The level of pay transparency was self-reported, and measured as "To what extent are you familiar with the pay of your colleagues". The item was assessed on a Likert-type scale ranging from 1=not familiar at all, to 5= fully familiar. Pay communication policy was explored with an closed-end question "Your pay in the organization you are currently working" is "fully secret, information forbidden to discuss", "not a publicly known information, but can be discussed with colleagues, although it is not supported by the employer", "not a publicly known information, but can be discussed with colleagues and it is supported by the employer" or in case of pay openness" it is fully public information, accessible to other employees".

Attitudes towards pay transparency were measured with three items: "I believe that wages should be transparent within the organization", "I would like to work in an organization with a high level of pay transparency", and "I would be ready to communicate transparently my salary to my colleagues in the organization". The questionnaire used a 5-point Likert-type scale ranging from 1 (strongly disagree) to 5 (strongly agree).

A description of individual and organization related outcomes, specifically developed for this study to assess the employees' perceptions of pay transparency outcomes, is as follows:

1. Employee motivation - "I think that increased pay transparency would improve my level of motivation";
2. Individual performance - "I would be/would have been more productive if

the organization I work for had transparent pay”

3. Employee relations – “If salaries were transparent, the relationships among the employees in the organization would be better”
4. Job satisfaction – “I would be more satisfied at work if wages were transparent”
5. Retention – “Pay transparency would lead to a reduction in employee fluctuation”
6. Equitable pay – “If wages were more transparent, they would be determined more fairly“.
7. Employee discrimination – “Pay transparency would help to reduce employee discrimination in this organization“
8. Commitment – “I would be more loyal to the organization if salaries were transparent“.

Additionally, the questionnaire included information about respondent’s employment (public/private sector, length of service, length of service with the current employer, firm size, unionization) and some respondents’ independent characteristics (gender, age, education level and monthly income).

Confirmatory factor analysis was used to evaluate the validity of the scales used for pay secrecy preferences and attitudes about pay transparency outcomes. Most standardized factor loadings were greater than 0.70 with one factor greater than 0.65, so this single-factor model was good fit with the data (Hair et al., 2006). Cronbach’s alpha for the overall scale measuring perceived outcomes of pay transparency was 0.933. Non parametric Chi-square and Mann-Whitney U tests were used to test the differences between public and private sector employees.

RESEARCH RESULTS

Respondents dominantly belonged to the private sector (n=244, 69.1%) which corresponds with the fact that majority of employees in Croatia are employed by the private sector organizations. A total of 109 employees (30.9%) were employed in the public sector. Current and longest employment sectors show a strong correlation (r=0.829, p<0.01) indicating that employees during their careers rarely moved across sectors (private or public sector).

Table 1
Profile of respondents in the public and private sector

	Public sector	Private sector
Age	\bar{x} = 37.86, s.d.=11.48	\bar{x} = 31.72, s.d.=7.42
Gender	M – 23.9%, F – 76.1%	M – 37.7%, F – 62.3%
Education	High school – 11.9% bachelor – 11.9% master or higher – 76.2%	High school – 14.3% bachelor – 13.1% master or higher – 72.5%
Income	Up to 6000 kn – 28.4% 6000-8000 kn – 44% 8000-10000 kn – 18.3% more than 10 000 – 9.2%	Up to 6000 kn – 38.5% 6000-8000 kn – 28.3% 8000-10000 kn – 15.2% more than 10 000 – 18%
Experience with current employer	\bar{x} = 10.13 s.d.=10.20	\bar{x} = 3.84 s.d.=4.46
Union membership	No – 50.5% Yes – 44% Do not know – 5.5%	No – 90.6% Yes – 4.5% Do not know – 4.9%

s.d.=standard deviation

Table 1 shows the profile of respondents from each sector. On average, employees from the public sector are older than employees in the private sector and include a higher proportion of women. Employees in the public sector mostly earn average (up to 6000 kuna) or slightly above average (6000-8000 kuna) salaries (72.4% respondents), whilst in the private sector there is a high percentage of employees earning average or below average salaries (38.5%), but there is also a relatively high proportion of those whose earnings highly exceed average salaries in Croatia (18%). Compared to employees from the private sector, employees in the public sector have longer working experience with current employer, and higher union membership rate.

The level of pay transparency is the consequence of pay communication policy, ranging from secrecy to openness. In Croatia public sector traditionally shows high unionization and consequentially public availability of collective labour agreements that include some information about pay levels or pay ranges. As shown in Table 2, the research confirmed that complete openness (reported by 21.1% respondents employed in the public sector), or at least some employer-supported pay openness is more often present in the public sector. Among private owned companies, 29.9% pursue with complete pay secrecy (whereas among public organizations this percentage is 2.8%). Statistically significant difference in pay communication has been confirmed between the two sectors ($\chi^2 = 73.224$, at $p < 0.01$).

Table 2
Pay communication policy in the public and private sector

	Pay communication				Total
	Total secrecy	Pay is not public, but it can be discussed with colleagues, not supported by employer	Pay is not public, but it can be discussed with colleagues, supported by employer	Total openness	
Public	2.8%	27.5%	48.6%	21.1%	100.0%
Private	29.9%	45.5%	19.3%	5.3%	100.0%
Total	21.5%	39.9%	28.3%	10.2%	100.0%

Pearson Chi-Square=73,224; df=3; p=0.000

The research further analyzed employee-perceived pay transparency level in the public and private sector, as well as employee attitudes towards pay transparency and its possible outcomes for the individual and the organization. Table 3 shows the level of self-reported pay transparency in the public and private sector. Descrip-

tive statistics indicates that employee pay transparency is generally higher among public sector organizations (very high transparency for 29.4% of public and 18.4% of private organizations) and that there is a statistically significant difference in perceived pay transparency between the two sectors ($\chi^2 = 8.519$, at $p < 0.1$).

Table 3
Pay transparency in the public and private sector

	Pay transparency					Total
	Very low	Low	Moderate	High	Very high	
Public	6.4%	20.2%	22.0%	22.0%	29.4%	100.0%
Private	13.9%	23.0%	25.0%	19.7%	18.4%	100.0%
Total	11.6%	22.1%	24.1%	20.4%	21.8%	100.0%

Pearson Chi-Square=8,519; df=3; p=0.074

A special interest of this research was to study employee attitudes to pay transparency. When comparing employee attitudes based on their sector of employment, public sector employees showed a more positive attitude towards pay transparency (61.4% employees believe that pay should be transparent, compared to 53.3% in the private sector), would like to work for a company with a transparent pay system

(76.1%; compared to 57.4% of employees in the private sector) and the majority of them would be ready to communicate transparently their pay to colleagues (64.2%, compared to 48.4% respondents belonging to private sector organizations). Mann-Whitney U test confirmed that such differences between employees from the two sectors are also statistically significant (at $p < 0.01$).

Table 4
Employee attitudes towards pay transparency

Employee attitudes related to pay transparency	Sector of employment	Strongly disagree (%)	Disagree (%)	Nor agree or disagree (%)	Agree (%)	Strongly agree (%)	Total (%)
I believe that wages should be transparent within the organization U=9938; p=0.000	Public	5.5	3.7	29.4	22.0	39.4	100.0
	Private	10.7	15.6	20.5	25.4	27.9	100.0
I would like to work for company with transparent pay U=10980; p=0.007	Public	3.7	2.8	17.4	22.0	54.1	100.0
	Private	11.5	14.3	16.8	25.8	31.6	100.0
I would be ready to communicate transparently my salary to my colleagues in the organization U=9440,500; p=0.000	Public	6.4	4.6	24.8	21.1	43.1	100.0
	Private	13.5	15.6	22.5	23.8	24.6	100.0

In terms of possible outcomes of pay system transparency, data in Table 5 indicate that employees in the public sector envisage higher beneficial effect of pay transparency. For all examined outcomes Mann-Whitney U test indicated that such differences are statistically significant be-

tween employees working in the public and private sector; (1) increased employee motivation ($p < 0.01$), (2) increased performance ($p < 0.05$), (3) improved employee relations ($p < 0.01$), (4) increased satisfaction ($p < 0.01$), (5) employee retention ($p < 0.1$), (6) more equitable pay ($p < 0.1$),

(7) reduced discrimination ($p < 0.01$), and (8) increased commitment ($p < 0.01$). On average, research results indicate that pub-

lic sector employees attribute pay transparency with higher beneficial effects.

Table 5
Employee-perceived outcomes of pay transparency

Outcomes of pay transparency, increase in:	Sector of employment	Strongly disagree (%)	Disagree (%)	Nor agree or disagree (%)	Agree (%)	Strongly agree (%)	Total (%)
Employee motivation U=10815,000; p=0.004	Public	7.3	9.2	37.6	22.0	23.9	100.0
	Private	18.0	19.3	23.8	21.7	17.2	100.0
Performance U=11179,000; p=0.014	Public	11.0	10.1	39.4	18.3	21.1	100.0
	Private	22.1	16.0	27.9	18.0	16.0	100.0
Employee relations U=9715,000; p=0.000	Public	10.1	12.8	37.6	24.8	14.7	100.0
	Private	23.4	23.8	29.1	13.9	9.8	100.0
Satisfaction U=10689,500; p=0.002	Public	9.2	10.1	35.8	27.5	17.4	100.0
	Private	17.6	19.7	30.3	18.9	13.5	100.0
Retention U=11840,000; p=0.089	Public	9.2	11.9	48.6	15.6	14.7	100.0
	Private	16.4	20.5	31.1	20.5	11.5	100.0
Equitable pay U=11666,000; p=0.057	Public	3.7	5.5	25.7	30.3	34.9	100.0
	Private	9.0	12.7	20.5	28.7	29.1	100.0
Discrimination (reduced) U=10241,500; p=0.000	Public	2.8	2.8	31.2	27.5	35.8	100.0
	Private	11.5	18.0	20.9	23.8	25.8	100.0
Commitment U=9832,000; p=0.000	Public	7.3	4.6	43.1	26.6	18.3	100.0
	Private	20.1	17.6	30.7	19.7	11.9	100.0

Table 6 shows correlation coefficients between respondents' independent characteristics and their attitudes towards pay transparency and its outcomes, both for respondents from the public and private sector. For example, in the public sector employee age is statistically significantly correlated with employees' perceptions of the outcomes of pay transparency: motivation ($r = -0.195$, $p < 0.01$), performance ($r = -0.297$, $p < 0.01$) and retention ($r = -0.127$, $p < 0.01$). Negative correlation coefficients found between age and perceived outcomes of pay transparency indicate that as employees in the public sector get older, their perception of the positive outcomes of pay transparency is diminishing. Income has been statistically significantly related to employee retention as a consequence of pay transparency ($r =$

0.328 , $p < 0.01$), but due to the negative correlation coefficient, it can be concluded that as the level of employee's income is increasing, their perception of the positive impact of pay transparency on employee retention in the company is decreasing.

In the private sector, age is negatively and statistically significantly related with several outcomes of pay transparency: work motivation ($r = -0.132$, $p < 0.01$), employee performance ($r = -0.129$, $p < 0.01$), employee retention ($r = -0.136$, $p < 0.01$) and commitment ($r = -0.189$, $p < 0.01$). The level of education among respondents from the private sector is found to be related with employee satisfaction ($r = -0.131$, $p < 0.01$) and retention, ($r = -0.131$, $p < 0.01$), although negative correlation coefficients indicate that more educated employees perceive fewer benefits

of pay transparency for employee satisfaction and retention. Respondents' income was also related with perceived outcomes of pay transparency ($r=-0.245$, $p<0.01$), but in a

negative manner, indicating that the higher the income, the fewer benefits of pay transparency will be perceived by the employees in the private sector.

Table 6
Correlation between researched variables in the public and private sector

	PRIVATE SECTOR (N=244)												
	1	2	3	4	5	6	7	8	9	10	11	12	13
Age		-0.012	-0.074	0.490**	-0.104	-0.132*	-0.129*	-0.057	-0.096	-0.136*	-0.122	-0.096	-0.189**
Gender (1=F; 2=M)	-0.244*		-0.016	0.295**	-0.097	-0.173**	-0.111	-0.096	-0.085	-0.080	-0.099	-0.115	-0.068
Education	0.158	-0.087		0.268**	-0.058	-0.059	-0.116	-0.072	-0.131*	-0.139*	-0.073	-0.046	-0.068
Income	0.181	0.142	0.540**		-0.245**	-0.374**	-0.331**	-0.231**	-0.281**	-0.276**	-0.206**	-0.227**	-0.359**
Attitude towards pay transparency	00.011	-0.067	0.089	-0.064		0.673**	0.669**	0.621**	0.739**	0.583**	0.597**	0.557**	0.659**
Motivation	-0.195*	0.037	-0.088	-0.175	0.537**		0.873**	0.650**	0.787**	0.589**	0.546**	0.618**	0.726**
Performance	-0.297**	0.072	-0.044	-0.104	0.476**	0.804**		0.663**	0.801**	0.615**	0.557**	0.586**	0.776**
Employee relations	-0.062	0.118	-0.009	-0.162	0.499**	0.616**	0.569**		0.709**	0.542**	0.469**	0.516**	0.582**
Satisfaction	-0.113	0.103	-0.085	-0.178	0.538**	0.703**	0.697**	0.775**		0.651**	0.599**	0.615**	0.800**
Retention	-0.195*	0.140	-0.168	-0.328**	0.254**	0.521**	0.431**	0.622**	0.567**		0.580**	0.500**	0.641**
Equitable pay	-0.109	-0.043	-0.082	-0.163	0.500**	0.459**	0.368**	0.369**	0.454**	0.336**		0.727**	0.6540.**
Discrimination	-0.137	0.022	-0.088	-0.133	0.503**	0.532**	0.430**	0.455**	0.476**	0.430**	0.782**		0.645**
Commitment	-0.034	0.055	-0.084	-0.043	0.486**	0.542**	0.613**	0.550**	0.659**	0.449**	0.453**	0.534**	

** Correlation is significant at the 0.01 level (2-tailed).

* Correlation is significant at the 0.05 level (2-tailed).

DISCUSSION AND CONCLUSIONS

Failing to understand what employees prefer with respect to pay communication can affect individual and organizational outcomes (Schuster & Colletti, 1973). This paper can help academics and practitioners to understand when and why employees prefer open pay communication and should employers really pursue with more pay transparency, as has been recently requested. Although non-unanimously, previous research has mostly shown that open pay communication can have numerous benefits (Futrell & Jenkins, 1978; Scarpello & Carraher, 2008, Bamberger & Belogolovsky, 2010; Belogolovsky & Bamberger, 2014; Day, 2012; Marasi, Wall & Bennett, 2018 etc.). However, this paper specifically focused on “pay transparency dilemma”, or more precisely, what are employee attitudes to pay transparency by separately analyzing attitudes of employees in the private and public sector.

Research results confirmed the assumption that pay communication and pay transparency are relatively higher in the public sector. Furthermore, those employees currently employed in the public sector have different preferences about pay issues than employees in the private sector, with more positive attitudes towards transparency and pay communication compared to employees from the private sector (H1). Therefore, employees with high preference for pay transparency might be attracted to public sector organizations and less likely to enter the private sector. However, it must be pointed out that those differences could be stipulated by respondents' profiles, as there were more female respondents in the public sector, they are on average older than employees from the private sector and their income was relatively lower when compared to employees from the private sec-

tor. Additionally, risk-averse individuals often group in the public sector (Pfeifer, 2011), and pay transparency as such offers some level of security. Overall results indicate that more than half of the respondents in Croatia in general have a positive attitude towards pay transparency, would like to work for a company with a transparent pay system and would be willing to communicate information about pay to colleagues. Such findings were somewhat unexpected since in collectivistic national cultures employees usually do not want to stand out from the group or compete with others in the group (Colella et al., 2007), and due to pay transparency employees might become aware that not all members of the group share the same pay ranges.

Statistically significant differences have been found between public and private sector employees in terms of their beliefs about the consequences of increased pay transparency, confirming H2. Descriptive statistics indicated that employees working in the public sector perceive that pay openness can have more beneficial effects than employees working in the private sector, for example for increasing employee motivation, performance, satisfaction and other, which confirms previous findings (e.g. Scarpello & Carraher, 2008, Bamberger & Belogolovsky, 2010; Jawahar & Stone, 2011; Day, 2012; Belogolovsky & Bamberger, 2014). Still, it must be emphasized that public sector organizations in Croatia mostly do not implement variable pay, and Belogolovsky & Bamberger (2014) showed that the outcomes of pay transparency also depend upon the type of implemented reward system. Although prior research showed contradictory findings on the effects of pay openness on the perception of pay equity (e.g. Day, 2007; Smit & Montag-Smit, 2019), in this research the respondents whose employers pursue more open pay

communication, namely those from the public sector, perceived positive effects of pay transparency on perceived pay equity.

After a long period of pay secrecy as a common practice (e.g. Rosenfeld, 2017), initiatives to increase pay transparency are gaining importance both in the EU and USA (Trotter, Rawson Zacur & Stickney, 2017). As a part of their compensation strategy and policy, companies must make a choice on the level of pay transparency. Several benefits of pay transparency have been already emphasized in the literature, but employee attitudes on pay communication were mostly neglected. This paper contributed to this “pay transparency dilemma”, but also aimed at comparing the situation in public and private sector organizations. The respondents from the public sector organizations find that their pay systems are more transparent than the respondents from the private sector, but they also showed higher preference for transparent pay systems. Such findings might indicate that those employees that have a more favorable attitude towards pay transparency may be attracted to public sector organizations that usually offer higher pay transparency. Still, private sector organizations should not neglect the importance of pay communication, especially due to the fact that in case pay for performance is applied, pay openness increases individual performance (Bamberg-er & Belogolovsky, 2010).

Practical implications

The findings of this paper indicate that employers in Croatia, both in the public and private sector, should not hesitate to implement greater levels of pay transparency and comply with the European Commission recommendation on strengthening the principle of equal pay between men and women through transparency. Gender pay gap is usually the most prominent form of

discrimination and according to employee opinion, and the biggest advantages of pay transparency are exactly achieving equitable pay and reduced employee discrimination. Furthermore, besides sharing information about pay structure or pay ranges, employers in the public sector could disclose pay information for certain positions (e.g. above a certain pay level) in order to restrain salary growth and to act as a form of implicit control, similar to publicly declared executive remuneration in the private sector. Since respondents generally showed a high preference for pay transparency, it is advisable even for employers from the private sector in Croatia to increase the level of pay communication, as otherwise prospective workers might have reduced incentives to enter this sector.

Research limitations

Because of the limited amount of research into pay communication, no existing scales measuring this variable were available, and thus self-made scale was used for the purpose of this research. Although reliability was acceptable, it is unclear whether or not it measures the breadth and depth of issues that should be included in a scale on pay communication sufficiently. It is probable that different types of occupations and professions are differently affected by pay communication. Indication of the sector of employment was self-rated. Data were collected from employees in a collectivistic country, whose attitudes might differ from employees in other dominantly individualistic countries.

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Sažetak

TRANSPARENTNOST PLAĆA – STANJE I UČINCI: KOMPARATIVNA ANALIZA ZAPOSLENIKA U PRIVATNOM I JAVNOM SEKTORU

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U radu se analiziraju stavovi zaposlenika prema transparentnosti plaća i načinu na koji poslodavci komuniciraju informacije o karakteristikama sustava nagrađivanja, te provodi komparativna analiza stavova zaposlenika privatnog i javnog sektora. Istraživanje je provedeno na uzorku 353 zaposlenika iz privatnog i javnog sektora. Rezultati istraživanja pokazuju da zaposlenici iz javnog sektora imaju pozitivniji stav prema transparentnosti plaća, iskazuju veće preferencije prema transparentnosti plaća i spremniji su dijeliti informacije o plaći negoli zaposlenici iz privatnog sektora. U usporedbi sa zaposlenicima iz privatnog sektora, zaposlenici iz javnog sektora smatraju da transparentnost plaća dovodi do pozitivnijih učinaka. Način komuniciranja informacija o sustavu nagrađivanja i razina transparentnosti plaća mogu djelovati kao dodatni čimbenici koji će privlačiti zaposlenike u privatni ili javni sektor, odnosno, kao osnova za grupiranje zaposlenika u sektoru.

Ključne riječi: komuniciranje plaća, transparentnost plaća, javnost plaća, tajnost plaća, sustav nagrađivanja.