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Transparency in Complex Compensation Systems

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Abstract

The purpose of the present work is to examine the effects of full pay transparency, in the organisational context of complex compensation systems, on the comparisons employees draw between each other. To do so, an overview of compensation systems, including their purposes and components is presented. Second, the term of full pay transparency is introduced and defined. Lastly, this work offers several scenarios of social comparisons conducted under full pay openness in an equitable compensation system. In a first scenario, where employees pose as fully rational actors, full pay transparency presents positive fairness perceptions of the pay structure. In a second scenario, in which organisational members' rationality is inhibited by biases, the compensation system is perceived as inequitable, other things equal. Concluding, full pay openness does not necessarily garner positive effects in social comparisons. Furthermore, variable pay, as a component of the pay mix, seems to pose a hindrance to the fairness perceptions of employees. The author notes that an adequate communication strategy and involvement of employees in the strategic process of implementing full pay transparency may counter the negative effects found.

Keywords: Compensation; pay transparency; social comparison.

1. Introduction

In 1963 the Equal Pay Act was signed in the United States of America, ensuring equal pay for equal work in organisations independently of gender (Milkovich, Newman, & Gerhart, 2011, p. 591) and signifying a first step toward a culture of compensation fairness in American corporations. Decades after this historic event, in 2014, President Obama signed an Executive Order, which allowed employees to discuss pay information without having to fear retribution from their respective employer (Marasi & Bennett, 2016, p. 50). Laws such as the abovementioned have been implemented in other countries as well, in Germany the Entgelttransparenzgesetz was passed through legislation in 2017, gesturing toward a change of organisational culture, specifically concerning the openness surrounding pay information (Marasi & Bennett, 2016, p. 50).

The secrecy norms surrounding pay information have been a continuously discussed topic among practitioners and scholars (Belogolovsky & Bamberger, 2014, p. 1724; Colella, Paetzold, Zardkoohi, & Wesson, 2007, p. 55). Pay secrecy or its opposite pay transparency, not only influences employees' behaviours inside of the organisation (Brown, 2001, p. 883;

El Akremi, Vandenberghe, & Camerman, 2010, p. 1707; Gächter & Thöni, 2010, p. 534; Milkovich et al., 2011, p. 637) but can have significant societal consequences by possibly concealing or revealing differentials respectively (Colella et al., 2007, pp. 67-68) and making room for discussions about the fairness of pay distribution in society.

Indeed, there seems to be a trend among employees toward the favouring of open accessibility of pay information, with websites such as Glassdoor.com or Salary.com gaining traction, as these offer their services and make information about the mean compensation in certain organisations readily available (Marasi & Bennett, 2016, p. 50). Yet, organisations still seem to prefer secrecy policies, compared to those of openness (Colella et al., 2007, p. 63). This could be due to the fact that there is no consensus in academic literature of whether pay secrecy or pay transparency policies result in more favourable employee behaviour (Belogolovsky & Bamberger, 2014, p. 1707; Gächter & Thöni, 2010, p. 532). However, as the compensation strategy plays a vital part in the execution of organisational goals (Balkin & Gomez-Mejia, 1987, p. 180; Gomez-Mejia & Balkin, 1992, p. 389), it should be in the interest of professionals to implement an

optimal strategy (Balkin & Gomez-Mejia, 1990, p. 154; Belogolovsky & Bamberger, 2014, p. 1707). There is significant empirical evidence suggesting the fairness of a compensation strategy to be a critical determinant of its success among employees (Charness & Kuhn, 2007, p. 694; Gächter & Thöni, 2010, p. 532). Consequently, with a trend toward transparency preference amid employees (Marasi & Bennett, 2016, p. 50) and diverse opinions in academic literature concerning different pay communication policies (Card, Mas, Moretti, & Saez, 2012, p. 3002; Colella et al., 2007, pp. 67-69), understanding how employees regard transparency policies in organisations concerning their fairness perceptions should be of high interest for scholars.

Coincidentally, equity theorists have long noted the tendency of employees to compare themselves to others to assess whether they are compensated fairly by their organisation (Cropanzano, Byrne, Bobocel, & Rupp, 2001, p. 167; Cropanzano & Mitchell, 2005, p. 874; Lawler, 1965, p. 413). Additionally considering the inherent complexity of compensation systems in organisations (Marasi & Bennett, 2016, p. 51) and the fact that there is research conducted on pay transparency policies encompassing said aspects is scarce (Belogolovsky & Bamberger, 2014, p. 1707; Charness & Kuhn, 2007, p. 694; Lawler, 1967, pp. 187-188; Marasi & Bennett, 2016, p. 52; Schuster & Colletti, 1973, p. 40), this work aims to explore possible scenarios, which could result from the comparisons employees draw of each other under the presumption of full pay transparency policies in an organisation with a complex compensation system.

To answer this question, first, compensation systems will be presented with regard to the motives for their adoption and their components. Thereafter, the idea of full pay transparency will be introduced, as well as the potentials and risk accompanying such a pay information policy. Subsequently, this work will present different scenarios of how pay transparency in a complex compensation system affects the comparisons employees draw among each other to assess the fairness of their remuneration.

2. Complexity in Compensation Systems

As previously noted, compensation systems are a complex matter (Marasi & Bennett, 2016, p. 50). In the successive chapters, this complexity will be described by introducing the motives for the adoption of pay systems, namely its main objectives followed by two popular theories, agency theory and social exchange theory, used to illustrate the relationship between an organisation and its employees and the role compensation systems play in them. Lastly, the specific components of a total rewards system will be presented alongside the strategic reasons for these components.

2.1. Motives for Complex Compensation Systems

The aim of the pay system can depend upon the point of view taken. From the perspective of employees, compensation poses as a return for their investments, such as their

education and accomplished trainings that facilitated them to do their job, and the labour they provide, constituting a vital part of the employment relationship (Brown, 2001, p. 879; Folger & Konovsky, 1989, p. 127; Milkovich et al., 2011, pp. 8-9). To organisations, however, the compensation system poses a crucial part to obtaining sustainable competitive advantage in the market (Milkovich et al., 2011, p. 37) and must, therefore, be responsibly designed (Brown, 2001, p. 879) to fit certain objectives (Milkovich et al., 2011, p. 15), which will be outlined in the subsequent chapter.

2.1.1. Objectives of compensation systems

A fundamental objective of the compensation system is the guarantee of its effectiveness (Milkovich et al., 2011, p. 15) regarding employee motivation and in the pursuit of organisational goals. The effectiveness of a pay structure can be measured by the degree of alignment between the pay strategy and the general corporate strategy (Balkin & Gomez-Mejia, 1987, p. 175; Milkovich et al., 2011, p. 285). The basic idea is that the compensation strategy should be aligned with the overall human resource strategy creating a horizontal fit on the human resource level. Moreover, the compensation strategy should also be aligned with the business strategy, and consequently the overarching corporate strategy, in a vertical fit (Milkovich et al., 2011, p. 41). Because the corporate strategy needs to respond to environmental circumstances, the compensation strategy needs to do so as well (Stroh, Brett, Baumann, & Reilly, 1996, p. 761), ensuring the effectiveness of pay policies (Balkin & Gomez-Mejia, 1987, p. 164), which can eventually lead to the fulfilment of organisational goals (Balkin & Gomez-Mejia, 1987, p. 180). As a misalignment can produce negative outcomes (Milkovich et al., 2011, pp. 78-81), a constant adjustment of the compensation strategy is necessary (Balkin & Gomez-Mejia, 1990, p. 163; Milkovich et al., 2011, p. 38). The indispensable development of the pay strategy, consistent with changes in the business strategy, can also be reflected in the decision of adopting pay information policies which are more open or secretive respectively (Balkin & Gomez-Mejia, 1990, p. 163; Marasi & Bennett, 2016, p. 50).

As the pay strategy is supposed to be aligned to fit in the organisational context (Milkovich et al., 2011, p. 132), another objective of the compensation strategy is the achievement of optimal efficiency, which translates amongst others to improved employee performance, increased quality of labour and the containment of labour costs (Milkovich et al., 2011, p. 15). First, the behaviour of organisational members can be influenced through incentives, resulting in heightened motivation and efforts (Gächter & Thöni, 2010, p. 541; Milkovich et al., 2011, p. 87) and favourably in better performance (Deckop, Mangel, & Cirka, 1999, p. 421). This correlation can be lead back to expectancy theory, as employees expect augmented effort and performance to lead to bigger pay-offs (Bloom & Milkovich, 1998, p. 293; Igalens & Roussel, 1999, pp. 1014-1015). Furthermore, an efficient compensation system serves as a sorting mechanism, meaning employees in favour of the structures and policies in place

are retained and employees reluctant of the system sort themselves out by leaving the organisation (Milkovich et al., 2011, pp. 284-285; Tsui, Pearce, Porter, & Tripoli, 1997, p. 1111). Additionally, if a pay system is efficient, it will also attract appropriate talent (Milkovich et al., 2011, p. 211), ultimately leading to better organisational performance (Milkovich et al., 2011, p. 285).

Another important objective of the pay structure may be the resulting job satisfaction. Seeing as talent is assumed to leave the organisation when the pay structure does not align with their preferences (Milkovich et al., 2011, pp. 284-285; Tsui et al., 1997, p. 1111), the remainder of the workforce should be satisfied with the compensation, which constitutes a critical aspect of job satisfaction (Currall, Towler, Judge, & Kohn, 2005, p. 614; Williams, McDaniel, & Nguyen, 2006, p. 392). Research has shown that underinvestment, describing the scenario in which an employee invests more effort and commitment into the employee-employer relationship than the organisation (Tsui et al., 1997, p. 1093), to be a determinant of reduced performance and negative attitudes toward the job (Tsui et al., 1997, p. 1115). Consequently, it has been proven that mutual relationships or an overinvestment from the organisation ensure higher performance and affective commitment from employees toward the organisation (Tsui et al., 1997, p. 1111).

Finally, the main objective of the compensation system should be to ensure fair treatment of organisational members (Milkovich et al., 2011, p. 17; Moorman, 1991, p. 845). One way a pay structure can be equitable to its employees is when it reflects the current business needs and is therefore well aligned to the corporate strategy and can incentivise employees toward organisational goals (Milkovich et al., 2011, p. 132). Two essential sources of fairness in the pay strategy are distributive and procedural justice (Milkovich et al., 2011, p. 80; Tekleab, Bartol, & Liu, 2005, p. 900), which will be introduced in later chapters. Furthermore, an organisation's handling of its compensation matters signals its values to organisational members (Kerr & Slocum, 1987, p. 99; Milkovich et al., 2011, p. 636), wherefore the system should ensure appropriate allocation of rewards among employees by implementing fair distribution processes (Klein, 1973, p. 608). Lastly, the equity of an organisation's compensation system signals trustworthiness to the outside and can result in good reputation (Aryee, Budhwar, & Chen, 2002, p. 280; Klein, 1973, pp. 608-609; Milkovich et al., 2011, p. 307).

Heretofore, some of the objectives of compensation systems have been introduced. Subsequently, two of the most prominent theories in compensation literature, namely agency theory and social exchange theory, will be introduced to explain how an organisation can pursue their compensation objectives through the implementation of an adequate pay structure.

2.1.2. Agency theory

Agency theory revolves around the contract between a principal who delegates work, namely the organisation, and an agent holding the other end of the relationship, in this

case, the employee (Deckop et al., 1999, p. 421; Eisenhardt, 1989, p. 58; Stroh et al., 1996, p. 751). The fundamental idea is that the principal buys the agents behaviour (Stroh et al., 1996, p. 753) by using a compensation system as the motivator (Eisenhardt, 1989, p. 58; Milkovich et al., 2011, p. 293). Agency theory can be applied to different job structures (Gomez-Mejia & Balkin, 1992, p. 951) and therefore, offers a great basis for the analysis of the principal-agent control relationship (Bloom & Milkovich, 1998, p. 283; Gomez-Mejia & Balkin, 1992, p. 946; Tosi & Gomez-Mejia, 1989, p. 181).

A large part of agency literature concerns itself with the agency problem, which describes the possibility of a conflict of interests between the actors (Eisenhardt, 1989, p. 58; Gomez-Mejia & Balkin, 1992, p. 923; Stroh et al., 1996, p. 751; Wiseman, Cuevas-Rodríguez, & Gomez-Mejia, 2012, p. 204). This conflict can arise due to information asymmetries, emerging when the principal cannot fully monitor the agent's behaviour (Gomez-Mejia & Balkin, 1992, p. 923; Gomez-Mejia & Wiseman, 2007, p. 83; Wiseman et al., 2012, p. 207), or diverging preferences toward risk (Bloom & Milkovich, 1998, p. 283; Eisenhardt, 1989, p. 58). Information asymmetries can create a state of moral hazard once a contract between the actors is in place (Gomez-Mejia & Wiseman, 2007, p. 82), giving the agent the possibility to misuse resources offered by the principal for personal benefits (Gomez-Mejia & Balkin, 1992, p. 923; Gomez-Mejia & Wiseman, 2007, p. 83). To counteract these asymmetries principals establish information systems, which inform them of the agent's behaviour (Eisenhardt, 1989, p. 60; Gomez-Mejia & Wiseman, 2007, p. 82; Tosi & Gomez-Mejia, 1989, p. 171). However, there may be jobs where the implementation of an information system may not be feasible, exemplarily when they are nonprogrammable tasks. In this case, principals should implement an appropriate contractual incentive system (Gomez-Mejia & Balkin, 1992, p. 946). Differences in risk disposition between the actors can induce diverse action preferences (Eisenhardt, 1989, p. 58), consequently creating conflict. This disagreement, however, can be alleviated by a contract as well (Eisenhardt, 1989, p. 62; Milkovich et al., 2011, p. 293).

The agreed-on contract between the principal and the agent can either be based on outcomes or the agent's behaviour, depending on multiple factors such as task programmability (Stroh et al., 1996, p. 725), outcome measurability (Eisenhardt, 1989, p. 62), outcome uncertainty and whether working information systems are already in place (Eisenhardt, 1989, p. 61; Stroh et al., 1996, p. 761). This contract serves as an incentive alignment (Milkovich et al., 2011, p. 293; Tosi & Gomez-Mejia, 1989, pp. 171-172) and describes the degree to which the compensation system encourages the agent to act in the interest of the principal, hence not opportunistic (Bloom & Milkovich, 1998, p. 283; Gomez-Mejia & Balkin, 1992, p. 946; Stroh et al., 1996, p. 751). The pay mix used for this incentive alignment can have various foci, depending on the nature of the conflict (Bloom & Milkovich, 1998, pp. 292-293; Gomez-Mejia & Wiseman, 2007, pp. 83-84; Stroh et al., 1996, p. 760; Tosi &

Gomez-Mejia, 1989, p. 181; Wiseman et al., 2012, p. 206). Overall, agency theory poses an interesting explanation as for why organisations need compensation systems.

2.1.3. Social exchange theory

Social exchange theory offers an alternative explanation for the need of compensation systems (Cropanzano & Mitchell, 2005, p. 874). The relationship between an organisation and its employees shows certain features of economic exchange, such as the negotiation of contracts (Aryee et al., 2002, pp. 267-268; Cropanzano & Mitchell, 2005, p. 878; Molm, 2003, p. 2; Molm, Takahashi, & Peterson, 2000, p. 1399), which are binding for both parties (Cropanzano & Mitchell, 2005, p. 878; Molm, 2003, p. 3; Molm et al., 2000, p. 1401) and ensure the bilateral flow of benefits (Molm et al., 2000, p. 1399). Through these negotiations, no party can draw a bigger advantage than the other (Molm, 2003, p. 13). However, the bargaining process for obtaining said contract can be a source of uncertainty itself (Molm et al., 2000, p. 1401) and requires trust in the commitment of the exchange partner toward the relationship, attributes of a social exchange relationship (Deckop et al., 1999, p. 421).

Indeed, similar to economic exchanges, social exchanges are established on the expectation of future return for investment but in the form of voluntary reciprocation (Blau, 1964, p. 98; Lynch, Eisenberger, & Armeli, 1999, p. 467), which involves a certain degree of ambiguity (Konovsky & Pugh, 1994, p. 657; Molm, 2003, p. 3) and dependency on the exchange partner (Molm, 2003, pp. 12-13). The employee-employer relationship can be characterised as a social exchange relationship (Aryee et al., 2002, p. 267; Cohen-Charash & Mueller, 2007, p. 688), as the organisation signals benevolent intent toward its members by putting a fair compensation system in place (Aryee et al., 2002, p. 268; Konovsky & Pugh, 1994, p. 658), hoping for the reciprocation of employees (Cropanzano & Mitchell, 2005, p. 876; Molm et al., 2000, p. 1400) in the form of valuable outcomes (Molm, 2003, p. 2), such as effort and commitment (Aryee et al., 2002, pp. 271-272; Lynch et al., 1999, p. 467). This results in a true reciprocal exchange, where benefits flow unilaterally (Molm et al., 2000, p. 1400) and are non-negotiated (Molm, 2003, p. 3; Molm et al., 2000, p. 1399), requiring trust from the actor making the first move, who in this scenario is the organisation Molm et al., 2000, p. 1397.

Social exchange theorists agree on the proposition that the relationship between an organisation and its employees can take on both, negotiated and reciprocal exchange, characteristics (Molm, 2003, p. 3). The negotiation of for both parties bilaterally beneficial contracts (Molm et al., 2000, p. 1399), poses as the basis of the employee-employer relationship (Cropanzano & Mitchell, 2005, p. 882). Additionally, the fairness of the remuneration structures in place shows the organisation's trust in its employees, which ideally leads to organisational members reciprocating in beneficial manners (Aryee et al., 2002, p. 271; Blau, 1964, p. 98; Cropanzano & Mitchell, 2005, p. 882; Eisenberger, Armeli, Rexwinkel,

Lynch, & Rhoades, 2001, p. 42; Kerr & Slocum, 1987, p. 101).

This expectancy of the employees' reciprocation can be accounted for by the construct of perceived organisational support (Cropanzano & Mitchell, 2005, pp. 883-884). Thereby, organisations depict their support and welfare intentions (Aryee et al., 2002, p. 269; Eisenberger et al., 2001, p. 42; Eisenberger, Fasolo, & Davis-LaMastro, 1990, p. 51; Lynch et al., 1999, pp. 469-470) through the rewards offered, such as compensation, advancement in the organisational hierarchy, and job enrichments well as symbolic benefits such as praise (Eisenberger, Huntington, Hutchison, & Sowa, 1986, p. 504; Lynch et al., 1999, p. 469). These investments from the employer are perceived as organisational support by employees, which feel obligated to "return the favour" by increasing their commitment and effort in order to meet corporate goals (Eisenberger et al., 2001, p. 49; Eisenberger et al., 1986, p. 506; Lynch et al., 1999, p. 469). Ideally, employees' commitment turns into extra-role performance in the form of organisational citizenship behaviour (Eisenberger et al., 1986, p. 506; Konovsky & Pugh, 1994, p. 656).

In conclusion, the introduced theories offer substantial explanations as to how compensation systems can aid organisations in the accomplishment of organisational goals. Subsequently, the components of the compensation system will be introduced, demonstrating its complexity.

2.2. Components of Compensation Systems

In the preceding chapters, the importance of a well-aligned pay structure for the attainment of organisational goals has been elaborated. This chapter concerns itself with the elements of said systems, exposing the complexity of pay structures in organisations.

Total rewards describe the entirety of the compensation system, including all its components (Milkovich et al., 2011, p. 11; Williams et al., 2006, p. 392). While the wording concerning the elements may differ in academic literature, the total compensation system is composed of three basic components, namely the base pay, variable pay, and benefits (Balkin & Gomez-Mejia, 1990, p. 175; Bloom & Milkovich, 1998, p. 293; Gächter & Thöni, 2010, p. 532; Greenberg, 1987, p. 55; Igalens & Roussel, 1999, p. 1004; Milkovich et al., 2011, p. 20). The work contributed by Milkovich et al. (2011) constitutes a considerable pillar in the compensation literature since its first edition in 1984, wherefore their findings constitute a major source in the following paragraphs. Milkovich et al. (2011, p. 11) generally divided rewards into the categories of cash compensation, containing wages and incentives, and non-cash rewards, namely benefits, which is the overarching structure followed in this chapter.

2.2.1. Base wage

The base wage or salary constitutes the first component of employees remuneration (Milkovich et al., 2011, p. 11). It acts as the fixed amount of payment, organisational members are guaranteed for their work (Igalens & Roussel, 1999,

p. 1005; Milkovich et al., 2011, p. 295; Stroh et al., 1996, p. 725; Williams et al., 2006, p. 392). In some countries, the computation of the salary differentiates between exempt and non-exempt employees (Milkovich et al., 2011, p. 11). While exempt workers do not receive additional compensation of any sort for working extra hours, non-exempt employees do (Igalens & Roussel, 1999, p. 1004; Milkovich et al., 2011, p. 11). Salary as the foundation of the compensation package can be increased either by merit, linked to an employee's increase in performance ratings (Milkovich et al., 2011, p. 319), or accordingly to increases in the costs of living regardless of performance measures (Milkovich et al., 2011, p. 12).

2.2.2. Variable pay

Additionally to the base wage, employees are rewarded with variable pay (Milkovich et al., 2011, p. 11). Variable payments, also termed incentives (Milkovich et al., 2011, p. 12), are detached from the salary, typically connected to performance appraisals (Milkovich et al., 2011, p. 322), and aim at complementing the base pay (Balkin & Gomez-Mejia, 1990, pp. 163-164; Tekleab et al., 2005, p. 916). Milkovich et al. (2011, pp. 327-333) note that these performance assessments can be grounded on individual or group performance, depending on the focus of the compensation structure as no best practice has been determined. Organisations will choose the optimal base pay to variable pay ratio depending on the institutional environment and the need for flexibility, as incentives are often seen as a way of putting employees compensation at risk and for an organisation to reduce labour costs on short notice in times of need (Balkin & Gomez-Mejia, 1990, pp. 163-164; Tekleab et al., 2005, p. 916).

2.2.3. Benefits

Benefits make up the last element of the pay mix introduced in this work (Milkovich et al., 2011, p. 11). They constitute an important part of the compensation package, as they are known to be highly valued among employees, aiding in the attraction and retention of talent (Milkovich et al., 2011, p. 415). Benefits comprise indirect, non-monetary rewards (Williams et al., 2006, p. 392) and can be grouped into three categories. First, there are benefits protective of the employees' income (Milkovich et al., 2011, p. 13), which in some places may be legally required (Milkovich et al., 2011, p. 442). These include health insurance and pension plans (Igalens & Roussel, 1999, p. 1005; Milkovich et al., 2011, p. 13), as well as savings programs and life insurances (Milkovich et al., 2011, p. 13), some of which may only be available to employees with a certain tenure in the organisation (Milkovich et al., 2011, p. 425). An additional type of benefits offered are those, aiding organisational members at balancing work and life, namely paid time off (Milkovich et al., 2011, p. 13), and other employee welfare programs (Igalens & Roussel, 1999, p. 1005). The preference for such worklife balance benefits depends on the priorities of the workforce (Milkovich et al., 2011, p. 13) and

are prone to demographic changes (Milkovich et al., 2011, p. 426). As the last distinction between different benefits, allowances are of special interest for organisations planning to expand to other countries as employees in different cultural settings may expect certain perks such as a company car, housing or reimbursements for diverse daily expenses (Igalens & Roussel, 1999, p. 1005; Milkovich et al., 2011, p. 14). Allowances, often termed fringe benefits (Milkovich et al., 2011, p. 415), may additionally include parking opportunities and bigger office sizes (Pritchard, 1969, p. 179; Schuster & Colletti, 1973, p. 37).

Apart from the above-mentioned monetary and non-monetary rewards, Milkovich et al. (2011, p. 295) note that the total compensation system offers more socially relevant rewards as well, such as status (Greenberg, 1987, p. 55), social interaction, enjoyable jobs and work environments, and development opportunities among other things.

After presenting the main characteristics of the pay mix as it is defined in this work, it should be noted that there is additional complexity to the system through the way said rewards are dispersed (Colella et al., 2007, p. 56). As noted in the preceding chapter is it of great importance that the compensation strategy and the business strategy of the organisation are well aligned to aid the realization of organisational goals. Therefore, there are multiple ways performance can be measured and the components of compensation can be weighted (Balkin & Gomez-Mejia, 1990, pp. 163-164; Colella et al., 2007, pp. 60-69; Gomez-Mejia, 1992, p. 382; Milkovich et al., 2011, pp. 80-81), in accordance with the employer's objectives. However, as it is not within the scope of this work, said strategic characteristics will not be discussed. Additionally to the pay mix, organisations can adjust the policy concerned with the communication of pay information. The subsequent chapters will introduce the concept of pay transparency as a communication policy.

3. Pay Transparency

Policies concerned with pay dispersion are known to be complex (Colella et al., 2007, p. 56), often blurring employees' comprehension of the underlying fairness (Tekleab et al., 2005, p. 899). That is why it is interesting to explore, whether a communication policy such as pay transparency would have positive effects on employees' fairness perceptions concerning the compensation system. There has been a large focus in research on pay secrecy, however, in early compensation literature, Lawler (1967, p. 188) emphasized the importance of supplying organisational members with information concerning the pay system, as it is said to improve employee effort and performance (Heneman, Greenberger, & Strasser, 1988, p. 1701). Therefore, the concept of pay transparency will be presented in the subsequent chapters, along with associated potentials and risks of said policy.

3.1. Pay Transparency in Pay Systems

Pay communication policies manage two dimensions of pay information, namely the amount of information shared

by the organisation and the amount of information exchanged between employees of an organisation (Colella et al., 2007, p. 56; Marasi & Bennett, 2016, p. 51). Scholars have defined such information policies along a continuum, with pay secrecy as the most restrictive extreme and pay transparency, also termed pay openness, on the other end (Bamberger & Belogolovsky, 2010, p. 989; Colella et al., 2007, p. 68). Where pay secrecy represents the absence of information available to employees (Belogolovsky & Bamberger, 2014, p. 1706; Colella et al., 2007, pp. 56-57), paired with sanctions if said information is shared (Colella et al., 2007, p. 68), pay openness describes a state where employees are free to discuss their remuneration and have access to pay information of other organisational members (Bamberger & Belogolovsky, 2010, p. 989). Both of these extremes are said to affect employee behaviour (Marasi & Bennett, 2016, p. 55), with Milkovich and Anderson (1972, p. 301) finding that partial communication fails to give employees an accurate picture of the compensation structure. Consequently, as a significant amount of academic literature concerns itself with the effects of pay secrecy and it is yet to be determined as the most efficient policy (Charness & Kuhn, 2007, p. 694), exploring the efficiency of pay transparency at portraying accurate fairness perceptions to its employees is not only interesting but valuable.

The notion of pay transparency resulting in perceived fairness concerning the pay system is not novel (Marasi & Bennett, 2016, p. 54). To explore the purpose of this work, full pay transparency is assumed. In other words, it is assumed that employees have open access to information regarding the pay dispersion system, complete with performance appraisal procedures, as well as the compensation of other organisational members. Under a policy of full pay openness, this work also assumes that there are no sanctions or repercussions attached to pay information exchange between organisational members. The following chapters disclose potentials and risks of such a policy of full pay transparency.

3.2. Potentials of Pay Transparency

Research has continuously highlighted several drawbacks to pay secrecy, specifically in terms of equity perceptions (Bamberger & Belogolovsky, 2010, p. 989; Colella et al., 2007, p. 68; Lawler, 1965, p. 422; 1967, p. 185). Concurrently, scholars have predicted positive effects for open pay communication policies (Belogolovsky & Bamberger, 2014, p. 1724; Lawler, 1967, p. 188; Milkovich & Anderson, 1972, p. 302), some of which will be presented in the subsequent paragraphs.

First, pay transparency can be perceived as a positive signal from the organisation, indicating interest in its employees' wellbeing (Montag-Smit & Smit, 2020, p. 5). This perceived commitment from the organisation can motivate employees to better their performance, even those who are more cynical and likely to believe in an organisation's malevolent intent (Lynch et al., 1999, p. 480).

Additionally, by consenting open communication about pay information, the organisation makes itself vulnerable per definition by attributing trustworthiness to its members (Mayer, Davis, & Schoorman, 1995, p. 712; Montag-Smit & Smit, 2020, p. 1). That is because employees could use such information to their advantage (Molm et al., 2000, p. 1402), exemplarily on the labour market during negotiations about compensation. This vulnerability can be perceived as a sign of trust and commitment toward the organisational members (Molm et al., 2000, p. 1405; Montag-Smit & Smit, 2020, p. 1), who are in turn more likely to perceive transparency as a benevolent action (Belogolovsky & Bamberger, 2014, p. 1711; Colella et al., 2007, p. 68; Molm et al., 2000, p. 1406), enhancing the perceived fairness of the compensation system and resulting in heightened performance (Belogolovsky & Bamberger, 2014, p. 1711; Konovsky & Pugh, 1994, pp. 657-658; Milkovich & Anderson, 1972, p. 301).

Full pay transparency can also aid in the development of an able workforce. The idea of employees sorting themselves out of an organisation based on their liking of the compensation system, resulting in the retention of talent matching the organisation's goals (Milkovich et al., 2011, p. 40), has already been introduced in this work as an objective of an efficient pay structure (Milkovich et al., 2011, p. 15). Pay transparency policies can support this process, as recent research has shown that low ranking employees, coincidentally the lowest compensated, are more likely to experience a decline in job satisfaction under pay transparency (Card et al., 2012, p. 3002), which could lead to them moving to a better-fitting workplace (Colella et al., 2007, p. 60).

Finally, an increase in the fairness perception of the compensations system (Marasi & Bennett, 2016, p. 54) is the most relevant potential pay transparency offers in the context of work. Open pay information policies can help employees recognise the performance-pay linkage better (Colella et al., 2007, p. 60; Schuster & Colletti, 1973, pp. 35-36), which in turn reduces uncertainty concerning performance appraisals (Belogolovsky & Bamberger, 2014, p. 1725; Montag-Smit & Smit, 2020, p. 4). Research has highlighted the connection between transparency and equity perceptions (Bamberger & Belogolovsky, 2010, pp. 988-989; Lawler, 1967, p. 188; Marasi & Bennett, 2016, p. 54), arguing that positive perceptions of organisational justice are related to heightened commitment to the organisation and increased motivation as well as performance (Lawler, 1967, p. 184; Marasi & Bennett, 2016, pp. 54-56).

The antecedent paragraphs emphasize the opportunities pay openness can offer organisations. But as any policy, pay transparency brings some risks as well (Lawler, 1967, p. 188), which will be introduced hereafter.

3.3. Risks of Pay Transparency

Scholars have long determined various drawbacks to policies of full pay secrecy (Colella et al., 2007, p. 56; Schuster & Colletti, 1973, p. 36). Nevertheless, those findings do not indicate full pay transparency to be the optimal strategy, as there are several pieces of academic literature highlighting

potential risks (Lawler, 1967, p. 188; Smit & Montag-Smit, 2018, p. 318).

Full pay openness may lead the organisation and its managers to alter performance appraisals, thereby, compressing the wage structure as to reduce conflict between employees and between employees and the organisation (Belogolovsky & Bamberger, 2014, p. 1706; Montag-Smit & Smit, 2020, p. 5). This, however, inherently reduces the fairness of the compensation system because organisational members are not paid accordingly to their performance anymore (Montag-Smit & Smit, 2020, p. 5).

Nonetheless, the biggest concern regarding full pay transparency lies in the employees' secrecy preferences not matching the implemented policy (Schuster & Colletti, 1973, pp. 39-40). Pay communication preferences depict the employees' need for confidentiality regarding pay information (Marasi & Bennett, 2016, p. 55; Smit & Montag-Smit, 2018, p. 306). Furthermore, the preference for pay secrecy, compared to pay transparency, has been shown to be more salient among employees with a high tolerance for inequity, compared to those with a low tolerance for inequity (Bamberger & Belogolovsky, 2010, p. 988). These preferences are personal and demonstrated to not be connected to the individual employee's rank in the organisational hierarchy (Schuster & Colletti, 1973, p. 38). The pay information policy applied, illustrates an organisation's ability to carry to its employees' needs (Smit & Montag-Smit, 2018, p. 306). Accordingly, a misalignment of preferences and policies may be perceived as a disregard of employees' desires (Marasi & Bennett, 2016, pp. 55-56), negatively affecting satisfaction (Smit & Montag-Smit, 2018, p. 318), fairness perceptions (Schuster & Colletti, 1973, p. 39; Smit & Montag-Smit, 2018, p. 317), and perceived organisational support (Marasi & Bennett, 2016, p. 56).

The degree to which organisations experience the potentials and risks of full pay transparency can vary respectively with the employees' preferences and the organisational context (Colella et al., 2007, p. 63). However, the above-mentioned consequences may differ in manifestation and intensity, when applied to the context of the inherently complex pay systems. The consecutive chapters will explore possible scenarios concerning the comparisons employees draw between each other in an environment of pay transparency coupled with complex compensation systems.

4. Pay Transparency in Complex Compensation System

For the integrity of the following sections, all the assumptions needed for answering the research question of this work will subsequently be presented in a holistic manner. Fairness has been described as one of the main objective of pay systems in organisations (Milkovich et al., 2011, p. 17). Consequently, an equitable compensation system is especially important under the presumption of full pay transparency, as it has been described in earlier chapters, since any discrepancies would shed a negative light on the organisation

(Molm, 2003, p. 14) causing declines in employee motivation (Aryee, Chen, & Budhwar, 2004, p. 12), satisfaction (Tekleab et al., 2005, p. 913), and performance (Tsui et al., 1997, p. 1115). Thus, it is assumed that the compensation system in place is inherently fair in all dimensions of organisational justice, namely interpersonal, informational, procedural, and distributive justice (Colquitt, Conlon, Wesson, Porter, & Ng, 2001, pp. 426-427). However, as it is not within the bounds of this work to discuss employees' perceptions of all organisational justice dimensions, the focus will lie on discussing distributive justice and procedural justice perceptions, as they are particularly relevant within this context (Colquitt et al., 2001, p. 435; El Akremi et al., 2010, p. 1688; Tekleab et al., 2005, p. 900). Furthermore, it is assumed that the incentive component of the compensation structure in this work is based on individual performance appraisals, which adds complexity to the social comparisons drawn between employees. Additionally, it has to be noted that no social accounts, which could serve as an exculpation for perceived inequities (Belliveau, 2012, p. 1156; Bies & Shapiro, 1987, p. 216), are offered by the organisation or its managers.

4.1. Social Comparison and Fairness

Research suggests that employees' satisfaction with the compensation structure is contingent upon favourable pay comparisons (Card et al., 2012, p. 2982; Greenberg, Ashton-James, & Ashkanasy, 2007, p. 23; Igalens & Roussel, 1999, p. 1007; Lawler, 1967, p. 183). Indeed, employees compare themselves to others (Festinger, 1954, p. 135), whether knowingly or unknowingly (Brickman & Bulman, 1977, p. 150; Pritchard, 1969, p. 177), in an attempt to estimate their relative position in the pay distribution (Colella et al., 2007, p. 66; Wood, 1989, p. 232). In social comparison theory this is also known as self-evaluation (Festinger, 1954, p. 135; Wood, 1989, p. 238), where organisational members will use social comparison as a way of gauging the fairness of the compensation structure (Milkovich et al., 2011, p. 83). An alternative motive for social comparison is the intention of self-enhancement (Wood, 1989, p. 232), which is often mentioned in conjunction with downward comparison (Greenberg et al., 2007, p. 31; Larrick, Burson, & Soll, 2007, p. 76). However, as the scope of this paper is limited and the focus lies on the fairness perceptions employees draw from social comparison processes, while self-enhancement is an interesting aspect of social comparison, it will be neglected as a variable in this work.

In the act of social comparison, employees form a ratio of their inputs, such as effort, time and intellectual abilities, to their outcomes, in this case, their remuneration. Afterwards, the variables are weighted according to their perceived importance to the employee and this ratio is compared to that of a referent other (Cropanzano et al., 2001, p. 167; Currell et al., 2005, p. 616; Pritchard, 1969, pp. 176-177). An open pay information policy suggests employees use other organisational members as comparison counterparts (Kulik

& Ambrose, 1992, pp. 218-219). It is a general presumption of social comparison that individuals intentionally select organisational members in their immediate environment as referents (Greenberg et al., 2007, p. 35), which is called horizontal comparison in the organisational context (Festinger, 1954, p. 121; Gächter & Thöni, 2010, p. 532; Garner, 1986, p. 254; Lawler, 1965, p. 413; Milkovich et al., 2011, p. 83). This describes the process employees undertake, where they recognise a group of others with similar or the same abilities and compare their input to outcome ratios with those of said others (Festinger, 1954, p. 120-121; Goethals & Darley, 1977, p. 265; Igalens & Roussel, 1999, p. 1018; Lawler, 1967, p. 186). Therefore, the ratios of an employee's co-workers constitute an antecedent for the perceived fairness of the compensation system (Gächter & Thöni, 2010, p. 532; Milkovich et al., 2011, p. 292; Williams et al., 2006, p. 395), satisfaction with the pay structure (Clark & Oswald, 1996, p. 375), and effort on the job (Clark, Villeval, & Masclet, 2006, p. 421). Accordingly, the employees' ability to determine the right comparison counterpart is important to social comparison theory and should be feasible under a policy of full pay openness, as employees should be able to identify the adequate referent or referent group.

In organisational justice literature the terms fairness and justice are often used interchangeably (Ganegoda & Folger, 2015, p. 27; Konovsky, 2000, p. 489), similarly to how fairness and equity can be used synonymously in compensation literature (Milkovich et al., 2011, p. 30). Therefore, these terms will be used interchangeably as well throughout this work. Perceived organisational justice, such as distributive and procedural justice, poses as a determinant of employees' fairness perceptions in their jobs (Moorman, 1991, p. 845) and can influence their behaviour and performance (Aryee et al., 2004, p. 12; Colquitt et al., 2001, p. 425; Garner, 1986, p. 253; Konovsky & Pugh, 1994, p. 667; Milkovich et al., 2011, p. 292). Distributive justice describes the fairness of decision outcomes (Ambrose & Cropanzano, 2003, p. 266; Cohen-Charash & Mueller, 2007, p. 667; Cropanzano et al., 2001, p. 165; Konovsky & Pugh, 1994, p. 658). In the compensation context, this can be translated to the fairness of received payments and other rewards (Daileyl & Kirk, 1992, p. 308; Greenberg, 1987, p. 55; Milkovich et al., 2011, p. 80; Tekleab et al., 2005, p. 900). As another dimension of organisational justice, procedural justice is defined as the fairness of the procedures with which above-mentioned outcomes are administered in an organisation (Ambrose & Cropanzano, 2003, p. 266; Cohen-Charash & Mueller, 2007, p. 667; Cropanzano et al., 2001, p. 165; Greenberg, 1987, p. 55; Milkovich et al., 2011, p. 80; Tekleab et al., 2005, p. 900).

Research has shown that employees conduct comparisons even under policies of pay secrecy (Colella et al., 2007, p. 64; Lawler, 1967, p. 183), which can result in inaccurate and unfavourable outcomes due to false estimates of the referent's ratio (Lawler, 1967, p. 184). Therefore, it is of great interest to analyse whether social comparisons would render positive outcomes under full pay transparency. In the wake of full

pay transparency and under the assumption of a fair compensation system one would expect favourable outcomes of comparisons among employees. The following chapters will explore several scenarios in which employees are exposed to full pay transparency in complex compensation systems.

4.2. An Ideal Scenario of Employee Comparison

In an ideal scenario of social comparison, the employees are rational actors and come to their decisions based on the information available to them, by weighing benefits and costs (Molm, 2003, p. 9). Since full pay transparency is assumed, employees have full access to information regarding the pay distribution system as well as the remuneration packages other organisational members receive. This allows for no misinterpretation or wrong estimation of colleagues' compensation (Lawler, 1967, p. 184). Research has shown that the better employees are informed regarding organisational policies, the more accurate their picture of said policies is (Milkovich et al., 2011, p. 637) leading to increased satisfaction (Futrell, 1978, p. 144; Lawler, 1965, p. 421). This suggests that under a pay policy of full openness, satisfaction levels should be at their highest.

Social comparison has already been described as a pillar to employees' equity perceptions (Garner, 1986, p. 254; Pritchard, 1969, p. 177). Therefore, even though the compensation system is high in complexity, rational employees should be able to draw accurate compensation comparisons between themselves and an appropriate referent.

Konovsky and Pugh (1994, p. 658) noted that an equitable perception of distribution outcomes suffices for an exchange relationship, like the one between an organisation and its employees, to be continued. When employees draw comparisons between their input to outcome ratio and those of relevant others, they experience a sense of distributive fairness under the abstract circumstances as they are described in this work (Milkovich et al., 2011, p. 307). Thus, this perceived distributive fairness can result in lower workplace deviance and higher levels of organisational citizenship behaviour (Marasi & Bennett, 2016, p. 54). Additionally, scholars have found that high levels of perceived distributive justice are related to more pay satisfaction (Folger & Konovsky, 1989, p. 125; Tekleab et al., 2005, p. 913), which describes accumulated negative, or in this case positive, feelings employees have toward their pay (Heneman et al., 1988, p. 747). In turn, the amount of satisfaction organisational members ascribe to their compensation impacts their effort on the job (Charness & Kuhn, 2007, p. 703; Clark et al., 2006, p. 421). High levels of distributive justice are also positively related to job satisfaction levels (Daileyl & Kirk, 1992, pp. 311-312), with employees showing higher degrees of organisational commitment (Daileyl & Kirk, 1992, p. 313). Furthermore, the effects of distributive justice have been shown to affect the organisation even after the remuneration has been allocated (Ambrose & Cropanzano, 2003, p. 272), emphasizing the importance of positive perceptions for organisations.

However, distributive justice perceptions, as they have been described above, are also affected by employees' judgement of the procedural justice at hand (Cloutier & Vilhuber, 2008, p. 731; van den Bos, Wilke, Lind, & Vermunt, 1998, p. 1494). Since an equitable compensation system is assumed, rational organisational members should perceive the procedures, amongst others appraisal systems and processes used for the distribution of rewards (Milkovich et al., 2011, p. 80), which are disclosed under pay openness as fair (Folger & Konovsky, 1989, p. 126). Procedural fairness is said to predict employee behaviour (Konovsky & Pugh, 1994, p. 667), with scholars finding that it reduces deviant behaviours (El Akremi et al., 2010, p. 1707) and is positively related to perceived organisational support (Folger & Konovsky, 1989, p. 126; Moorman, Blakely, & Niehoff, 1998, p. 345) and organisational citizenship behaviour (Cropanzano et al., 2001, p. 185; Folger & Konovsky, 1989, p. 125; Lind & Tyler, 1988, p. 179). Similarly to distributive justice, procedural justice perceptions are also found to be predictive to pay satisfaction (Folger & Konovsky, 1989, p. 125; Heneman et al., 1988, pp. 755-757) and job satisfaction (Dailey & Kirk, 1992, p. 311).

In conclusion to this scenario, full pay transparency should lead to positive perceptions of distributive and procedural justice even under the circumstances of a complex compensation system, because the social comparisons amongst rational employees yield perceptions of fairness (Pritchard, 1969, p. 177). It has been shown that the discussed organisational justice dimensions are predictive of job satisfaction and pay satisfaction for the individual employees. Especially pay satisfaction, a necessary condition for the achievement of goals through the compensation system (Williams et al., 2006, p. 392), poses an important variable as scholars have found it to have some influence on turnover intent and ultimately turnover rates (Currall et al., 2005, pp. 632-633; Tekleab et al., 2005, p. 917). Moreover, the effects of pay satisfaction can be aggregated affecting the whole of the organisation (Currall et al., 2005, pp. 617-618; Ostroff, 1992, p. 965). Lastly, Marasi and Bennett (2016, p. 54) noted that employees exposed to pay transparency policies and experiencing organisational justice are more likely to participate in organisational citizenship behaviours.

4.3. Cognitive Restrictions

In an ideal world of rational actors, pay transparency in complex compensations systems would most likely translate to outcomes as they are described above, since employees would have perfect knowledge of all pay processes and distributions (Milkovich et al., 2011, p. 83) and would accordingly perceive the pay structure as equitable under social comparison. However, there are additional factors to human interaction that can impede employees from forming rational conclusions, such as biases. Biases are not necessarily an irrationality of the actor, but more of a deviation from a predefined ideal of perception (Hsee, Yang, & Li, 2019, p. 14; Moore & Small, 2007, p. 986) actors are oftentimes not aware of (Ganegoda & Folger, 2015, p. 27). Consequently, biased perceptions can lead to altered fairness perceptions,

which actors engaging in social comparison may be oblivious to (Ganegoda & Folger, 2015, p. 34; Moore, 2007, p. 42). It has already been pointed out that satisfaction with the compensation package, and ultimately the job, are grounded on the employees' organisational justice perceptions (Milkovich & Anderson, 1972, p. 300). However, biased perceptions of social comparison (Moore, 2007, p. 42) in increasingly complex compensation structures (Tekleab et al., 2005, p. 914) may yield unfavourable outcomes for the organisation (Cropanzano et al., 2001, p. 166), even under pay transparency (Milkovich & Anderson, 1972, p. 295). That is why scholars have emphasized the importance of including biased perceptions in social comparison studies (Greenberg et al., 2007, p. 32). In the subsequent chapters, possible biases under social comparison will be presented (Moore & Small, 2007, p. 986).

4.3.1. The worse-than-average effect

There is a common agreement among researchers that employees who are top performers are generally able to accurately estimate their performance in absolute terms (Dunning, Johnson, Ehrlinger, & Kruger, 2003, p. 85; Ehrlinger, Johnson, Banner, Dunning, & Kruger, 2008, p. 113), but grossly underestimate their performance relative to that of their peers' performance (Ehrlinger et al., 2008, p. 99). However, top performers may experience a task as easy (Alba & Hutchinson, 2000, p. 130), even if it is not, and expect their peers to perform equally to them, thereby underestimating their performance relative to their colleagues and overestimating their peers' performance respectively (Dunning et al., 2003, p. 85; Ehrlinger et al., 2008, pp. 114-115; Kruger & Dunning, 1999, p. 1131; Moore, 2007, p. 207). This underestimation of top performer's abilities (Ehrlinger et al., 2008, pp. 104-105) is related to underconfidence and the so-called worse-than-average effect (Larrick et al., 2007, p. 89). This effect is inconsistent with the self-enhancement aspect of social comparison (Suls et al., 2010, p. 62), as it stems from excessive modesty regarding the perceived performance of top performers (Ehrlinger et al., 2008, p. 117), and can alter their fairness perceptions concerning the compensation system. When said top performers engage in social comparison, as it often occurs automatically (Brickman & Bulman, 1977, p. 150), they may perceive the compensation system as unfair because their comparison other does not receive the same remuneration in terms of performance-related incentives, contrary to their expectations. Scholars have found this advantageous inequity to not influence satisfaction levels (Gächter & Thöni, 2010, p. 542) unless there is an interpersonal relationship in place between the top performer and their comparison other (Pritchard, 1969, p. 207; Sherf & Venkataramani, 2015, p. 11). Indeed, relational ties to the referent other, whether positive or not (Labianca & Brass, 2006, pp. 596-597), have been shown to influence the employee's fairness perception (Kulik & Ambrose, 1992, p. 212; Sherf & Venkataramani, 2015, pp. 10-11). In the case of positive relational ties, top performers may experience the perceived inequity negatively, even though it is objectively

advantageous to them (Sherf & Venkataramani, 2015, p. 3), because they identify with their comparison other (Ambrose & Kulik, 1989, p. 136; Sherf & Venkataramani, 2015, p. 4).

4.3.2. The better-than-average effect

Overconfidence poses another cognitive phenomenon that has been researched extensively (Moore & Small, 2007, p. 986). There is a common consensus among scholars that people seem to be overly confident in their abilities (Brenner, Griffin, & Koehler, 2005, p. 65; Larrick et al., 2007, p. 76; Moore, 2007, p. 42; Peterson, 2000, p. 45; von Winterfeldt & Edwards, 1986, p. 539; Yates, 1990, p. 94). This overconfidence in one's abilities and performance explains a bias called the better-than-average effect (Larrick et al., 2007, p. 77; Moore & Small, 2007, p. 972). Employees experiencing this bias believe themselves to perform better than the average of their colleagues (Ehrlinger & Dunning, 2003, p. 8). This confidence, however, is often not appropriate as studies have found employees who believe themselves to be better than the average to assume wrongfully so (Alba & Hutchinson, 2000, p. 142).

In actuality, this bias most often than not stems from the incompetence to objectively assess one's performance, also known as metacognition (Dunning et al., 2003, p. 85; Ehrlinger & Dunning, 2003, p. 6; Kruger & Dunning, 1999, pp. 1121-1122). This incompetence is unrelated to gender (Kruger & Dunning, 1999, p. 1123) and frequently observed among low performing employees (Brenner et al., 2005, p. 73; Dunning et al., 2003, p. 83; Ehrlinger et al., 2008, p. 110; Kruger & Dunning, 1999, p. 1122). The relationship between overconfidence and better-than-average impressions among bottom quartile performers (Ehrlinger & Dunning, 2003, p. 13; Larrick et al., 2007, pp. 89-91) can be ascribed in part to egocentrism (Ehrlinger et al., 2008, p. 117; Moore, 2007, p. 44). Egocentrism describes the act of weighing information about the self more heavily than that about others in situations of comparison (Kruger & Burrus, 2004, pp. 338-339; Moore, 2007, p. 44; Moore & Cain, 2007, p. 208; Moore & Kim, 2003, p. 1121; Suls et al., 2010, p. 71). Additionally, scholars have observed this egocentrism bias to still be prevalent, even when further information on referents was offered, intending to refocus study participants on the comparison other instead of themselves (Moore, 2007, p. 44; Moore & Kim, 2003, p. 1122).

Applied to the scenario of full pay transparency, studies as the above-mentioned account for low performing employees being overly confident in their performance. This misperception may then lead said employees to examine their abilities compared to higher performing organisational members in the context of social comparison. However, as a fair compensation structure is assumed, low performing employees' outcomes will account for lower compensation regarding the incentive component, which has been assumed to be based on individual performance appraisals, compared to their high performing comparison other. This creates perceived disadvantageous inequity (Sherf & Venkataramani, 2015, p. 3) for the low performing employee, which can have signifi-

cant organisational consequences (Larrick et al., 2007, p. 77; Moore, 2007, p. 43; Moore & Small, 2007, p. 972).

As a concluding remark, it can be ascertained that the inequity perceptions resulting from the introduced biases stem from the employees' incompetence of choosing the adequate referent other. This refutes a vital prerequisite of the social comparison theory (Festinger, 1954, p. 120; Greenberg et al., 2007, p. 35) and explains its failure at signalling the fairness of the compensation system, even under full pay transparency.

4.3.3. Alternative biases occurring in the organisational context

Subsequently, additional biases, namely priming and anchoring, occurring in the organisational context will be introduced in the subsequent paragraphs to offer further explanations for the failure of pay transparency policies in complex compensation systems.

First, scholars have found that negative experiences are more prevalent in human memory than positive ones (Baumeister, R. F. and Bratslavsky, E. and Finkenauer, C. and Vohs, K. D., 2001, pp. 323-324). If an employee, therefore, has had negative experiences with colleagues and/or his superiors, these negative feelings are more likely to be available to his cognition than positive experiences (Baumeister, R. F. and Bratslavsky, E. and Finkenauer, C. and Vohs, K. D., 2001, p. 335). Exemplarily, an unpleasant or harmful experience (Baumeister, R. F. and Bratslavsky, E. and Finkenauer, C. and Vohs, K. D., 2001, p. 325; Labianca & Brass, 2006, p. 597) in the organisational context could be a dispute with colleagues and/or superiors and could go as far as bullying at the workspace. These negative experiences can eventually evolve to negative feelings toward the organisation, as scholars have found that employees have a tendency of allocating human characteristics to their organisations (Eisenberger et al., 1986, p. 500). The prevalence of negative feelings toward the employer is an important annotation as it offers a reference for two well-known biases in cognitive literature. Priming is one of these biases and describes the "incidental activation of knowledge structures" (Bargh, Chen, & Burrows, 1996, p. 230). This implies that people have prejudices, certain stereotypes or concepts, which are activated unconsciously in particular situations and acted upon (Bargh et al., 1996, p. 231). An employee conducting social comparison, who has had negative experiences in an organisation and ascribes these negative feelings towards the employer, could, therefore, be negatively primed to act defensively in the given situation (Bargh et al., 1996, pp. 235-236). Consequently, when comparing their compensation package to that of referent other they may expect it to be unfair due to their negative priming. External information can pose as another example accounting for negative priming. In the organisational context, employees who are principally inequity sensitive (Belogolovsky & Bamberger, 2014, pp. 988-989) may subconsciously focus on news about unequal payment and the gender wage gap. When conducting social comparisons, these employees may then

be predisposed to expect inequities (Bargh et al., 1996, p. 237). While they do not have to estimate their referents compensation package, because such information is openly available to organisational members under pay transparency, employees may simply expect it to be unfair. Both of the described priming examples above can lead employees to reject legitimate performance information (Greenberg et al., 2007, p. 26) when their incentive pay is below the comparison others.

A second possible bias is called anchoring. The concept of anchoring was first introduced by Tversky and Kahneman (1974, p. 1128) and describes the fixation of study participants on a predefined anchor, in the case of this study a given number, which helped them estimate the result of a complex computation by adjusting from the said anchor. The obstacle to the anchoring-adjustment theory lies in the possibility of the anchor being flawed, which is especially true when it originates from the self (Epley & Gilovich, 2006, p. 312). The estimation that results from the anchoring and adjustment process consequently would be flawed as well. Employees may anchor on their performance pay, resulting in a perception of compensation inequity when it does not match that of their comparison other. This does not mean that the compensation system in place is unfair, which it is not since fairness is one of the key assumptions of this work, but rather that employees reject the idea of them not being as good as their comparison other. This bias is also related to the egocentric bias (Epley & Gilovich, 2006, p. 311), which again accounts for the better-than-average bias (Moore & Kim, 2003, p. 1121) introduced in the previous chapter.

In conclusion, the preceding paragraphs offered some alternative biases, which can account for perceived unfairness of the compensation system under full pay transparency. All the introduced biases seem to create a misperception of the inherent variable pay structure, which has been assumed to be based on individual performance. This leads to the finding that the incentive component of the compensation package may add the most to the perceived complexity of the pay structure. All in all, it has been shown that even under full pay transparency, incentives can pose as a basis for different biases during the social comparison process.

4.4. A Social Comparison Scenario under Cognitive Restrictions

The biases outlined in the previous chapters can alter employees' justice perceptions and therefore negatively affect their feelings and behaviours toward the organisation (Ambrose, 2002, p. 803). It should be noted that organisational members only perceive the compensation system to be unjust under the influence of said biases because they fail to recognize that they, and their colleagues, are fairly compensated for their performance (Daileyl & Kirk, 1992, p. 314; Garner, 1986, p. 254). Therefore, the effects described in the following paragraphs present a reversed scenario of the positive results described in chapter 4.2. Adams (1965) proposed different ways how employees can behave when experiencing organisational inequity, some of which are of par-

ticular interest for the integrity of this work. Accordingly, employees experiencing perceived unfairness will respond by altering their inputs and/or leaving the organisation (Adams, 1965, pp. 283-295). This complies with inferences drawn by other researchers (Ambrose, 2002, p. 804; Cropanzano et al., 2001, pp. 183-184; Currall et al., 2005, p. 616; Daileyl & Kirk, 1992, p. 314; Garner, 1986, p. 255; Larrick et al., 2007, p. 91), which will be further discussed subsequently.

Research has shown perceived distributive injustice to account for decreased pay satisfaction (Folger & Konovsky, 1989, p. 125) and job satisfaction (Colquitt et al., 2001, p. 437; Daileyl & Kirk, 1992, pp. 311-312). Employees with perceptions of distributive unfairness are also known for displaying low levels of organisational commitment (Colquitt et al., 2001, p. 437; Daileyl & Kirk, 1992, p. 313) as well as of organisational citizenship behaviour, which can result in workplace deviance (Marasi & Bennett, 2016, p. 54). Additionally, scholars have found a link between perceived distributive unfairness and absenteeism (de Boer, Bakker, Syroit, & Schaufeli, 2002, p. 192). Furthermore, in the case of a better-than-average bias, the comparing employee may develop feelings of envy towards their referent other, as he or she might feel entitled to the rewards acquired by the comparison other (Cohen-Charash & Mueller, 2007, p. 667; Greenberg et al., 2007, p. 33). Feelings of jealousy can escalate proportionally to the perceived unfairness, resulting in harmful behaviours towards the envied person (Cohen-Charash & Mueller, 2007, p. 670), ultimately creating a negative organisational environment.

Similarly to perceived distributive injustice, scholars have found perceived unfairness of the procedures constituting the compensation system to predict low pay satisfaction (Cloutier & Vilhuber, 2008, p. 731; Folger & Konovsky, 1989, p. 125; Heneman et al., 1988, pp. 755-757), as well as low job satisfaction (Daileyl & Kirk, 1992, p. 311). In addition, organisational justice literature agrees on the positive relation between perceived procedural unfairness and reduced levels of perceived organisational support (El Akremi et al., 2010, p. 1707; Folger & Konovsky, 1989, pp. 126-127; Masterson, Lewis, Goldman, & Taylor, 2000, p. 746; Moorman et al., 1998, p. 354). Finally, procedural injustice perceptions account for low levels of organisational citizenship behaviours (Cropanzano et al., 2001, p. 185; de Boer et al., 2002, p. 190; Folger & Konovsky, 1989, p. 125; Konovsky, 2000, p. 497; Moorman et al., 1998, p. 354) and increased amounts of negative behaviours (Konovsky & Pugh, 1994, p. 667), such as theft (Konovsky, 2000, p. 498).

Returning to Adams' (1965) proposition of adjustment behaviours, the reduction of inputs, meaning effort, is described as one way employees can counter perceived unfairness (Colquitt et al., 2001, p. 437; Currall et al., 2005, p. 616; Gächter & Thöni, 2010, p. 541; Garner, 1986, p. 257; Janssen, 2001, p. 1048). Furthermore, employees affected by perceived unfairness, especially women (Card et al., 2012, p. 2996), may consider exiting the workforce (Daileyl & Kirk, 1992, p. 314; Tekleab et al., 2005, p. 917), costing the organisation possibly valuable talent, depending on the em-

ployee's bias.

It has previously been mentioned that individual's satisfaction can be aggregated to a collective attitude (Currall et al., 2005, pp. 617-618). This, however, can be transferred to negative attitudes and behaviours as well, at the utmost resulting in strikes or slowdown of organisational activity (Currall et al., 2005, pp. 632-633; Garner, 1986, p. 257; Solow, 1979, p. 80).

The preceding paragraphs paint a strikingly different picture compared to the ideal scenario. It has been shown how cognitive restrictions can result in negative perceptions of the organisation, even under the assumption of a fair compensation system. This finding aligns with academic literature being vary of appointing full pay transparency as an ideal pay communication policy (Belogolovsky & Bamberger, 2014, p. 1706; Lawler, 1967, p. 188; Montag-Smit & Smit, 2020, p. 5).

5. Discussion

Before offering concluding remarks, several implications for scholars and practitioners alike will be discussed. The present work offers new insights for the pay communication literature landscape, in addition to connection points for scholars to build synthesising theories of social comparison in organisations with certain pay policies. It has been shown that the contextual frame of the pay information policy is important, as biases can affect the way employees perceive fair compensation systems. Respectively, practitioners can use the conclusions of this work for a better understanding of their employees.

5.1. Theoretical Implications

This work aims to showcase possible scenarios of employee comparisons of complex compensation packages under full pay transparency as, to the knowledge of the author, it has not been examined in academic literature. The present work adds threefold to the scholarly literature landscape. First, it offers a holistic overview of current literature on compensation systems by summarizing two focal theories that explain the need for aligned compensation structures. Insights into the components of compensation packages are offered, highlighting the complexity of the pay system. Contrary to pay secrecy, which has been examined in multitude (Bamberger & Belogolovsky, 2010, p. 989; Belogolovsky & Bamberger, 2014, p. 1706; Colella et al., 2007, pp. 68-69), open pay communication policies seem to have been neglected in academic literature. Hence, this work presents a comprehensive analysis of pay transparency by dissecting its functions as well the offered potentials and risks accompanying such a policy, and the groundwork for future analyses. Additionally, the present work offers ground for future research regarding fairness perceptions in organisations as it integrates social comparison theory and pay transparency research, proposing different scenarios on the equity perceptions of employees as rational actors and under biased impressions.

5.2. Managerial Implications

As for practitioners, this work can offer insights into employees' motives when evaluating their relative standing in the compensation system. Pay secrecy has previously been criticised, wherefore it is interesting to explore the possibilities of full pay transparency. It has been concluded that full pay transparency is not an ideal pay communication policy either, as it lies within the human nature to have certain cognitive restrictions. These can hinder employees to sense the organisations benevolent intent and the inherent fairness of the pay system. Therefore, practitioners may want to infer from this work to include employees in the strategic process of designing the compensations system, which has been shown to influence feelings toward the organisation (Milkovich et al., 2011, p. 637). Additionally, it is noted that the way in which such a communication policy is enacted may pose an interesting method of conveying positive intentions. Full pay transparency is likely to not offer the employee reactions organisations aim for by implementing such strategies.

5.3. Limitations and Future Research

As with any conceptual work, the present one has several limitations future research can build upon. Due to the theoretical nature of this work, an empirical examination of the presented findings would be fitting. Furthermore, as the scope of this paper is limited, certain contextual factors could not be included, such as the cultural setting of this work. A western setting is implied, although never specified, wherefore, it may be interesting to explore pay transparency policies and its effects on social comparison in an eastern setting. Based on Hofstede's (1980) cultural framework, several scholars have described the differences of individualistic and collectivist cultures in the organisational context (Colella et al., 2007, p. 58; Milkovich et al., 2011, pp. 531-532), yet to the knowledge of the author, specific pay communication policies have not been examined before diverse cultural backgrounds. Moreover, certain aspects of social comparison, such as an initial comparison to an internal standard (Clark & Oswald, 1996, p. 356; Pritchard, 1969, p. 2059) have not been considered, but may pose an interesting variable to the social comparison model under pay transparency. Additionally, the present work assumes a performance appraisal system based on individual accomplishments, which poses as a basis for the discussed biases. Still, the incentive component of the pay system may rely on multiple appraisal systems, which adds further complexity to the matter, and would offer new grounds for future research. Lastly, some of the biases in this study, such as the worse-than-average bias have been found to be reversible through manipulation (Ehrlinger et al., 2008, p. 114). In the present work, no such solution is offered and future research may explore solutions, such as a more effective communication strategy, to counter biased reactions of employees.

6. Conclusion

In the abstract setting of an utterly equitable compensation system, this work aimed at answering the question of how full pay transparency affects employee comparison. In a first scenario, where the organisational members are assumed to be full rational actors, full pay openness leads to desirable results, such as increased pay satisfaction, job satisfaction, and organisational citizenship behaviour. Nonetheless, within the bounds of this paper, it was established that employees are not always fully rational and suffer from cognitive restrictions, namely biases, some of which were introduced in this work. Under these new conditions, another scenario was described in which employees mistook a fair compensation system as unfair due to biased mindsets. The negative consequences have been discussed, establishing that full pay transparency is not an optimal solution under more realistic assumptions of constrained rational attitudes and behaviours. Additionally, this work offers the finding that a common source for the presented biases is the individual performance-based pay component of the compensation package. This makes room for the question of whether the biases, whether originating from the self or from external sources, could be avoided by implementing a different performance appraisal system. However, as the posed biases are only a fragment of the heuristics and judgements literature it cannot be answered within the bounds of this work. As a societal change, the movement towards pay transparency may become more relevant to organisations, making it interesting to further investigate the effects of pay openness policies on organisational fairness perceptions in future research. Through this work, the author aspires to offer a sound foundation for such.

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