

Open Salaries: the Good, the Bad and the Awkward

How would you feel if your co-workers could see your paycheck? Afraid they'll think you're overpaid? Defensive, because you think you make too little? WSJ's Sue Shellenbarger joins Lunch Break and explains the benefits and consequences of companies offering an open-pay policy. Photo: iStock / Jupiterimages

By

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How would you feel if your co-workers could see your paycheck? Afraid they'll think you're overpaid? Defensive, because you think you make too little?

More employers, from Whole Foods Market, with 91,000 employees, to smaller companies such as SumAll and Squarespace, are opening up companywide salary information to all employees. They generally don't disclose it to the public—but one company, Buffer, posts all employees' salaries on its website. The idea of open pay is to get pay and performance problems out on the table for discussion, eliminate salary inequities and spark better performance.

But open pay also is sparking some awkward conversations between co-workers comparing their paychecks, and puncturing egos among those whose salaries don't sync with their self-image.

Olivia Wainhouse was frustrated last year when she saw that a newly hired co-worker at SumAll, a 42-employee New York social-media data-analytics company, was making more than she was. "My competitive drive kicked in. I thought, 'What's going on here?'" says Ms. Wainhouse, an account executive.

She buttonholed the co-worker, Emmelie De La Cruz, at an in-house lunch: "I saw that you're make \$10,000 more than me. Can you tell me how you did that?" In what both women say was a friendly conversation over rosemary chicken and roasted potatoes, Ms. De La Cruz explained how before her hiring, she based her pay request on average salaries for people with comparable skills and experience, and described the skills she would be using on her job as the company's social-media marketing manager. Following Ms. De La Cruz's example, Ms. Wainhouse says she is researching salaries and working on improving her negotiating ability.



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SumAll, co-founded by Dane Atkinson, center, has an open-pay policy. Olivia Wainhouse, left, and Emmelie De La Cruz, right. *Photo: SumAll*

SumAll chief executive and co-founder Dane Atkinson says opening up salary information prevents the nasty surprises that happen when pay is kept secret—when an employee discovers by accident that he’s making far less than colleagues, but can’t discuss it because he isn’t supposed to know. Opening the records leads to “more conversation about salary, and a desire to correct salaries along the way,” he says.

Open pay can help eliminate discrimination against women and minority groups, says a 2012 study in the *Penn State Law Review*. SumAll’s Ms. De La Cruz says knowing others’ salaries eliminates “this looming insecurity” she felt at past employers, “where you were wondering, ‘What are other people making? Am I making enough? Did they lowball me?’ ” Mr. Atkinson says female and minority-group candidates sometimes ask for too little when they’re hired. Opening up companywide pay data makes such inequities obvious; he often pays women and minorities more than they ask.

People’s pay is sometimes adjusted downward, too, Mr. Atkinson says. Employees sometimes grow frustrated with colleagues who perform poorly, and pressure team

leaders or Mr. Atkinson to reduce their pay. The message: "Hey, you've oversold yourself," Mr. Atkinson says. The resulting pay cuts have been small, at about \$5,000 to \$10,000, and none of the employees targeted have quit, but "it's not an easy chat," he says.

Most employers keep pay secret because letting employees compare paychecks with each other or with top executives "is too disruptive, and not worth it," says Kevin F. Hallock, dean of industrial and labor relations at Cornell University. Others keep salaries under wraps because they "aren't very good at explaining to employees why they're being paid what they're paid," or what they must do to earn more, Dr. Hallock says.

Also, some employers fear competitors will poach their top talent by offering higher pay.

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INTENDED CONSEQUENCES

- ◆ Performance problems are more openly discussed.
- ◆ Employees perform better and stay longer if performance and pay criteria are fair.
- ◆ Pay inequities tend to be eliminated.

UNINTENDED CONSEQUENCES

- ◆ Managers must answer a lot of questions about why one person is paid more than another.
- ◆ Employees who prefer privacy are embarrassed.
- ◆ Employees may criticize co-workers who they think aren't earning their pay.

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Employees are increasingly likely to figure out anyway how their paychecks stack up via leaks or gossip. Average salaries for many kinds of jobs are published online by such sites as Glassdoor, Salary.com, Indeed.com or Payscale. Some 59% of more than 1,000 workers surveyed last year by the staffing firm Robert Half International said they had checked their salaries against market rates within the preceding year. Also, employees born after

1980 tend to be more open and share pay information.

Pay secrecy is linked to lower employee performance and a higher likelihood of quitting when employees suspect performance assessments or criteria for setting pay are unfair, says a 2015 study co-authored by Peter Bamberger, associate dean for research and faculty at Tel Aviv University in Israel. Many people would rather look for a new job than ask for a raise, the Robert Half survey says; while 89% of participants said they deserve a raise, only 54% said they plan to ask for one.

Opening up salaries for comparison "can be a great conversation-starter," equipping employees to ask how they can improve their performance or advance to higher-paying jobs, says Mark Ehrnstein, global vice president for human resources at Whole Foods Market, Austin, Tex. Whole Foods employees can see salary data for others throughout the company by making an appointment with a human-resource manager.

Buffer, a social-media marketing and analytics company, posts all 65 of its employees' salaries online, including their names, along with revenue, sales and its formula for setting salaries, says co-founder and chief executive officer Joel Gascoigne. Some employees were reluctant at first, but none has had any problems because of the exposure, he says. Buffer gets 2,000 applicants a month for the 5 to 10 positions it typically has open, and Mr. Gascoigne believes the transparency is a major draw. (Another is that employees can work from anywhere, and are scattered across 45 cities on five continents.)

Squaremouth, a travel-insurance comparison website with an open-pay policy, goes an extra step by allowing its 37 employees to vote on raises requested by colleagues on their teams. Employees make their pitch, and a majority vote is required for approval, says Megan Singh, a project manager for the St. Petersburg, Fla., company. Bosses vote, too, giving reasons for their vote. Salaries for comparable jobs elsewhere are part of the discussion, Ms. Singh says. Two of 23 raise requests have been turned down since the company started the practice in 2010.

Software developer Keith Thompson was worried when he took a job at Squaremouth two years ago that colleagues would be jealous of each other's pay, but he soon saw that the transparency shifts the burden to the dissatisfied employee to ask for a raise, he says.

Still, Mr. Thompson is sometimes uncomfortable when seeing "the sheer terror people experience when asking for a raise," he says. Colleagues' attempts to respond with humor can fall flat: "You're kidding! You're going to be making more than [another colleague]?"

Ms. Singh has asked for two raises since joining the company in 2013. Her co-workers

gave unanimous approval to a 22% pay increase after she was promoted to director of marketing, but two dissented on a 12% raise she requested after advancing to project-management director, she says.

She got the raise, but “it was not fun” to hear the “no” votes from co-workers who said they didn’t know enough about what she was doing to vote yes, she says. She is trying to communicate better and make her contributions more visible.

It took Squaremouth employee Brandi Morse a few months after her first promotion to get up the nerve in 2014 to ask for her first raise, she says. “You have to ask yourself the hardest questions that someone else would ask you: ‘Why do I deserve this?’” she says. She practiced her presentation several times, recording herself on video. Her raise was approved.

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