UNIVERSITY OF ALBERTA

CPA Speaker Series:

Lan Guo,
Wilfrid Laurier University

An Experimental Examination of Pay Secrecy's Effects on Discretionary Bonus Allocations and Employee Effort

Friday, October 27, 2023
2:00 PM - 3:30 PM
Location: BUS 3-06

ABSTRACT

In the backdrop of the recent movements and legislations that promote pay transparency, our research examines how horizontal pay secrecy (vs. transparency) affects managers' discretionary bonus allocation decisions, and how employees react to these decisions. We theorize that when employees do not have pay information about their peers, managers will be less concerned with relative pay among employees and more concerned with the effectiveness of incentives, leading to more equitable bonus allocations. In an experiment involving repeated interactions between one manager and three employees, managers allocate a shared bonus pool among the employees based on an incomplete set of information. Bonuses allocated to peers are either known (pay transparency) or unknown (pay secrecy) by the focal employees. We find that under pay secrecy (vs. transparency), managers allocate discretionary bonuses more equitably, are less affected by pay compression, and make greater adjustments for negative uncontrollable events. Although bonus allocations are more equitable under pay secrecy, employees do not perceive as such and as a result, the expected motivational benefit of pay secrecy is not materialized. Implications for research and practice are discussed.

Department of Accounting & Business Analytics
Alberta School of Business
College of Social Science & Humanities
Business Building, University of Alberta, Edmonton, AB, Canada T6G 2R6