UNIVERSITÄT LUZERN

COMPENSATION AND PAY TRANSPARENCY PRACTICES IN SWITZERLAND

SURVEY REPORT 2018

In co-operation with:

HR SWISS

Schweiz. Gesellschaft für Human Resources Management
Société Suisse de Gestion des Ressources Humaines
Società Svizzera per la Gestione delle Risorse Umane
Swiss Association for Human Resources Management

Editorial

Growing concerns about societal income inequality and about persistent pay gaps between men and women are leading governments and work organizations around the world to turn their attention to workplace compensation practices. To go beyond the basic question: «Are there pay differences among people in organizations?» and to understand and correct unjustifiable and unfair pay differences, it is important to understand both how companies actually pay people and how they communicate about pay.

Some pay differences are generally seen as justifiable, such as those based on seniority, performance, or differences in job levels/duties. Indeed, not paying people differently for such reasons would be seen as unfair. But sometimes pay differences that are not as readily explainable also creep into the system through conscious and unconscious processes such as bias, favoritism, and lack of attention or oversight. One way that organizations can expose and begin to address unjustifiable differences is through facilitating greater transparency with and among employees when it comes to their pay.

In this report we contribute in a unique and timely way to this conversation by providing evidence from over 500 respondents (mostly senior HR managers) in Switzerland as part of a broader global research study. We asked both about the prevalence of actual pay practices in organizations (e.g., use of individual variable pay) and also about pay transparency practices. Pay transparency practices reflect how organizations choose to communicate with employees about their pay as well as whether employees are allowed to discuss pay matters among themselves. In our surveys, we also collected data on several other variables important to organizations, including financial performance, employee turnover, and social capital. In addition, we asked respondents about the effectiveness of their pay systems and whether they have conducted an equal pay analysis.

Our results summarized below suggest that organizations vary in how transparent they are when it comes to pay, with most saying they are more open about the process of how pay is determined than about providing actual pay numbers. Pay transparency is also different for different types of pay practices, with our results generally indicating that more objective types or aspects of pay are associated with greater transparency than more subjective ones.

We hope that our research will help inform the global conversation on income inequality and invite you to further explore the detailed results of our survey below.

Prof. Ingrid. S. Fulmer
Director of the Centre for Workplace Excellence (CWeX),
University of South Australia Business School, January 2018

Executive Summary

Aspects of pay transparency

- **Pay process transparency** refers to the extent of information that is disclosed to employees on how pay is determined.
- **Pay outcome transparency** refers to the extent of information about the actual pay levels that is disclosed to employees.
- **Pay communication transparency** refers to the extent to which employees are free to discuss pay (i.e., as opposed to restricting communication about pay).

Pay transparency

- **Different aspects of transparency:** Organizations are more inclined to provide employees with information on how pay is determined (pay process transparency) than with actual levels of individual pay (pay outcome transparency). Additionally, the vast majority of organizations allow employees to freely discuss pay.
- **Different pay components:** Organizations are most transparent when it comes to benefits, followed by base pay, pay raises and team- or organization-level variable pay. The lowest transparency is observed for individual-level variable pay.
- **Pay process transparency:** Sixty-nine percent of the organizations inform employees about how employee benefits are determined. About half report being transparent about how base pay, pay raises and team- or organization-level variable pay are determined, and 40% provide information about how individual-level variable pay is determined.
- **Pay outcome transparency:** Around 30% of the organizations disclose aggregated information and 50% provide exact individual information about employee benefits to their employees. About 40% make aggregated information available and 30% disclose exact individual information about employees' base pay, pay raises and team- or organization-level variable pay. Thirty-seven percent of the organizations provide aggregated information and 23% report exact individual information about individual-level variable pay.
- **Pay communication transparency:** About 66% of the organizations allow employees to freely discuss base pay, pay raises and variable pay. On the other hand, about 22% of the organizations informally discourage, and 11% formally discourage employees from discussing base pay, pay raises and variable pay. Regarding benefits, 80% of the organizations have no communication restriction, while 13% have informal and 7% formal restrictions.

Organizational characteristics and pay transparency

- **Pay process transparency:** Organizations with more university-educated employees are more transparent regarding how employees' base pay, pay raises and team- or organization-level variable pay are determined.
- **Pay outcome transparency** of base pay and pay raises is generally lower in private organizations compared to public organizations. Moreover, larger organizations provide their employees with more information about actual levels of pay raises. Additionally, organizations with more unionized employees disclose more individual information about actual levels of base pay and pay raises.

- **Pay communication transparency:** Employees in private organizations are more often discouraged from discussing with their work colleagues base pay, pay raises, individual-variable pay and benefits than employees in public sector organizations. On the other hand, organizations with more unionized employees are more open about allowing their employees to discuss all aspects of their pay without restrictions.

Pay practices and pay transparency

Base pay transparency

- The greater the importance of job evaluation for base pay determination, the more transparent organizations are about how base pay is determined and the more they tend to provide actual information about base pay levels to their employees.
- Organizations are less transparent about how base pay is determined, disclose less actual base pay level information to their employees and more frequently restrict employees from discussing base pay if the level of employees' base pay largely depends on the market value of the position.
- Organizations are more likely to restrict their employees from discussing base pay if the level of base pay largely depends on the organization's ability to pay.
- Organizations that report higher pay dispersion and pay less than competitors also tend to be less transparent about how base pay is determined.

Pay raise transparency:

- Organizations that determine pay raises based on market value of the position or team- or organization-level performance are more likely to restrict employees from discussing pay raises.
- In contrast, organizations that base their pay raise decisions largely on the position in the pay range are more transparent about how pay raises are determined and also disclose more information on actual pay raise levels.
- Moreover, organizations that give pay raises to the entire workforce (e.g., cost of living adjustments) are more transparent about how pay raises are determined.
- Organizations are more transparent about how pay raises are determined, disclose more actual pay raise levels, and are less likely to restrict employees from discussing pay raises if they offer higher pay raises than competitors.

Variable pay transparency

- Organizations that use more subjective measures for performance evaluation are more secretive about how variable pay is determined.
- When employees' performance is measured relative to that of work colleagues, organizations are more likely to restrict employees from discussing variable pay.
- Organizations that offer higher variable pay than competitors are more transparent about how variable pay is determined.

Benefits transparency

- Organizations that pay above-the-market in terms of benefits are more transparent about both how benefits are determined and the actual level of benefits.

Pay transparency and organizational results

Pay effectiveness:

- Organizations perceive their pay policies and practices as more effective when they offer higher pay process transparency for all pay components.
- Organizations that provide more information about actual pay raise levels and the actual level of benefits perceive their pay policies and practices to be more effective.
- Organizations that let employees talk freely about base pay, pay raises and individual-level variable pay perceive their pay practices and policies as more effective.

Social capital

- Organizations that are more transparent about the criteria and processes to determine base pay, pay raises and variable pay tend to indicate that their employees are more collaborative, and more frequently share information, interact, and exchange ideas (i.e. have higher social capital).
- However, neither transparency about actual pay outcomes nor allowing employees to discuss their pay is related to higher social capital.

Organizational performance

- Organizations that are more transparent about how variable pay and benefits are determined report higher organizational performance.
- Organizations that are more transparent about the actual level of benefits report higher organizational performance.

Voluntary turnover

- Organizations that are more transparent about how base pay, pay raises, and individual-level variable pay are determined report lower voluntary turnover rates.
- However, organizations that offer pay outcome and pay communication transparency do not report lower voluntary turnover rates.

Pay Equality Analysis

- Fifty-six percent of the organizations have conducted an equal pay analysis. Specifically, 45% have done an internal self-evaluation, 10% have had an external evaluation done and 2% have done both.
- Organizations that are more transparent about how base pay and pay raises are determined, as well as organizations that are more transparent about actual pay raise levels were more likely to have conducted an equal pay analysis.

About the Content

1 About the Study

1.1 Background

«The Compensation and Pay Transparency Study» is a global research project conducted by researchers currently based at the Center for Human Resource Management (CEHRM) at the University of Lucerne (Switzerland), the Centre for Workplace Excellence at the University of South Australia Business School (Australia), and the Neeley School of Business at Texas Christian University (U.S.). The research team has conducted surveys in various countries around the world (e.g., Croatia, Portugal, Slovakia, Switzerland, Turkey, United States) to explore the differences in pay policies and pay transparency practices among different countries.

This report covers exclusively the results from Switzerland. In Switzerland, data were collected in cooperation with HR Swiss, the Swiss Association for Human Resource Management (www.hrswiss.ch). We invited HR professionals working in private, public, mixed (private and public), and non-profit organizations in the three major language regions of Switzerland to take part in an online survey between May and September 2017.

1.2 Content of the report

This study focuses on compensation and pay transparency practices. Under pay practices, we consider specific pay components such as base pay, pay raises, variable pay, and benefits. Additionally we explore market positioning and pay dispersion. In line with previous research[1], we focus on three different aspects of pay transparency: pay process transparency (extent of information that is disclosed to employees on how pay is determined), pay outcome transparency (the extent of information about actual pay level that is disclosed to employees), and pay communication transparency (the extent to which employees are free to discuss pay). In addition, several organizational results such as pay effectiveness, social capital, organizational performance, voluntary turnover and pay equality analysis are included in terms of their relationship to pay transparency.

1.3 Objectives of the study

The aim of this report is to provide an overview of current compensation and pay transparency practices in Switzerland. Additionally, we explore the conditions under which organizations are more likely to offer pay transparency and whether pay transparency is related to organizational results. Our research model is presented in Figure 1.

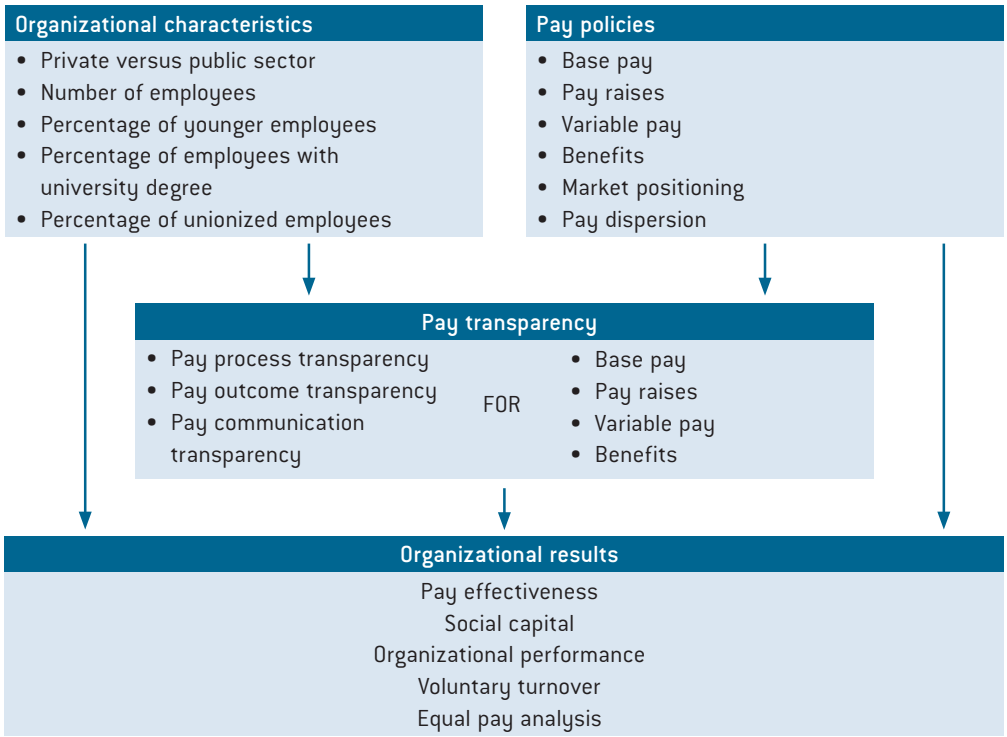


Figure 1: *Research model*

1.4 Data collection

HR Swiss provided a directory of 6,648 HR professionals and their respective email addresses, of which 47% were from the German-speaking part, 24% from the French-speaking part, and 29% from the Italian-speaking part of Switzerland. In the German- and French-speaking part the research team sent out personalized invitations while in the Italian-speaking part HR Swiss sent out an anonymous invitation to the study. Data were collected with an online survey tool. A total of 526 HR professionals have completed the survey, with an overall response rate of 7.9%. Such a response rate is in line with previous organization-level studies, for example the CRANET study[2].

1.5 Questionnaire

The original questionnaire was developed in English and translated into German, French, and Italian for the purpose of the Swiss study. Additionally, five HR professionals reviewed the questionnaire to assure adequate terminology in the Swiss context.

1.6 Note on confidentiality

The presented study received ethics approval from the Institutional Review Board at Rutgers University (U.S.). All participating HR professionals and their organizations were assured strict confidentiality. Furthermore, participants were assured that any contact information will be separated from survey data and not used for any other purposes than indicated.

1.7 Limitations

Given the non-experimental and cross-sectional nature of the study (data collected at one point in time from one source), no causal conclusions (cause and effect relationship) can be drawn. Additionally, for the analysis, data from public, private, mixed, and non-profit organizations were merged and this may confound the results. Moreover, given the limited representativeness of the sample (see Chapter 2.2) the results may not always be generalizable to the population of organizations in Switzerland.

2 About the sample

2.1 Participating respondents

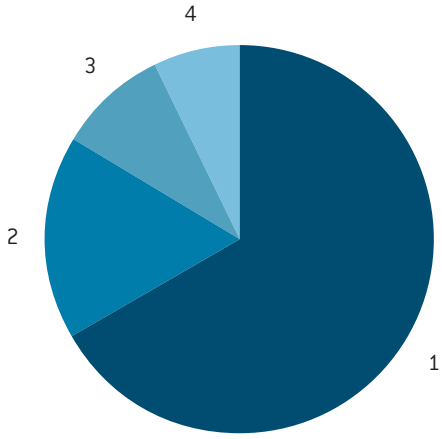
The majority of respondents work in the HR department (48% Head HR, 3% HR Business Partners, 5% Compensation Specialists, and 9% General HR), while one fifth of the respondents were in leader/manager roles (2% business owners, 8% CEO, CFO, or COO, 7% management position, 4% leading position; see Table 1). Mean tenure is 8.5 years (SD = 8.1 years). Thus, our respondents seem to be at the appropriate level and have the work experience to provide correct and precise information about the company's compensation and pay transparency practices.

Head HR	48%
HR Business Partner	3%
General HR	9%
Compensation	5%
Owner	2%
CEO / CFO / COO	8%
Management	7%
Division Head / Team or Project Leader	4%
Consultant	2%
Other	4%
No answer	9%

Table 1: *Study participants by function (N = 526)*

2.2 Participating organizations

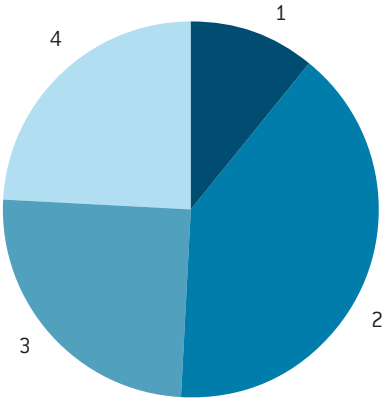
As Figure 2 demonstrates, two thirds of the participating organizations operate in the private sector, 17% in the public sector, 7% are mixed organizations (operating in the public and private sector) and 9% are non-profit organizations. When compared to data from the Federal Statistical Office (FSO) public sector organizations are overrepresented[3].



1	Private sector organization	66%
2	Public sector organization	17%
3	Non-profit-organzation	9%
4	Mixed organization (public and private sector)	7%

Figure 2: *Participating organizations by legal form (N = 526)*

In terms of size, 11% of the participating organizations are micro organizations with less than 10 employees, 40% are small and medium sized organizations (10 to 249 employees), one quarter employ between 250 and 999 employees, and one quarter has 1,000 or more employees (see Figure 3). When we compare our sample structure with data from the FSO, organizations with up to 10 employees, which according to the FSO constitute approximately 89% of all organizations in Switzerland, are significantly underrepresented, and large organizations with more than 1,000 employees (approximately 24% in our sample and 0.6% according to the FSO data) are significantly overrepresented[3]. Although micro organizations are clearly underrepresented, HR functions and policies tend to be limited in micro organizations. Therefore, we believe that the sample's bias toward larger organizations is suitable for exploring compensation systems and pay transparency.



1 less than 10	11%
2 10 – 249	40%
3 50 – 999	25%
4 1'000 and more	24%

Figure 3: *Participating organizations by size (N = 526)*

Participating organizations represent a wide range of sectors: manufacturing (17%), financial and insurance activities (11%), public administration (11%), administrative and support service activities (10%), other service activities (9%), human health and social work activities (8%), professional, scientific and technical activities (5%), and construction (5%), to name just a few.
Comparing our data with data obtained from the FSO on organizations by sector in Switzerland, education, health, and financial sectors are correctly represented[3]. The share of organizations operating in agriculture, forestry and fishing as well as wholesale and retail trade is smaller in this sample compared to the general population of organizations in Switzerland. In turn, organizations operating in the manufacturing sector are overrepresented. Considering the lack of representativeness of the sample in terms of size and sector, the results of this study should not be treated as representative of Swiss organizations and should be interpreted in the context of large organizations.

3 Pay transparency

Pay transparency generally refers to the extent to which an organization voluntarily discloses pay-related information to its employees and allows employees to discuss pay-related information with other employees inside the organization[4]. Pay transparency is a controversial topic and opinions about it differ widely. However, there is increasing pressure on organizations to open up regarding pay. For example, online wage calculators (e.g., Salarium) and platforms such as Glassdoor and Payscale provide an increasing amount of pay information that is easily accessible for employees. In addition, the so-called millennial generation, which has grown up sharing personal information on social media, is entering the workforce. Pay is no longer a secretive topic for this generation and they are more willing to share pay information with each other and discuss pay[5]. Finally, in an effort to reduce the gender pay gap, politicians have begun to engage in the discussion about pay transparency. In Switzerland, for example, the Swiss Federal Council is preparing a draft bill in which organizations with more than 50 employees will be forced to conduct an equal pay analysis every four years and inform employees about any potential pay discrimination[6].

Pay transparency is not an all or nothing phenomenon. Pay transparency can take on many different forms and act on different levels. Thus, in our study we take a more detailed approach, distinguishing between three different aspects of pay transparency: 1) pay process transparency, 2) pay outcome transparency, and 3) pay communication transparency.

3.1 Pay process transparency

Pay process transparency refers to the extent to which an organization voluntarily discloses how pay is determined, thereby disclosing the processes and criteria by which different components of pay (e.g., base pay, pay raise, variable pay, and benefits) are determined.

We asked research participants how transparent their organization was with employees about the processes through which the following pay components are determined: 1) base pay (the fixed component of pay, commonly known as salary or base wage); 2) pay raises; 3) individual-level variable pay (e.g., bonuses, commissions); 4) team- or organization-level variable pay (e.g., group bonuses); and 5) benefits. Respondents answered on a scale ranging from 1 (no transparency at all) to 5 (very transparent). The results displayed in Figure 4 reveal that pay process transparency is the highest for benefits: 69% of the organizations are transparent about how benefits are determined.

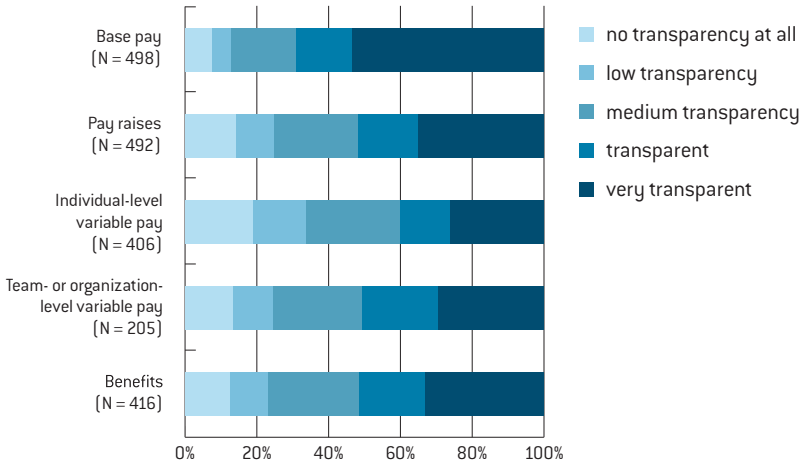


Figure 4: Pay process transparency

Overall, the results indicate that many organizations are transparent about the process of how pay is determined, but that this varies for different pay components. Approximately half of the organizations are transparent about how base pay, pay raises and team- or organization-level variable pay are determined. The lowest pay process transparency exists for individual-level variable pay, with only 40% of the organizations indicating they are transparent or very transparent about how individual-level variable pay is determined.

Relationship with organizational characteristics

We also examined to what extent organizations are transparent about pay processes[1]. The results of the ordinal correlation analysis[2] show that organizations with more university-educated employees are more transparent about how base pay ($r = .15$, $p < .01$), pay raises ($r = .17$, $p < .01$), and team- or organization-level variable pay ($r = .16$, $p < .05$) are determined.

Trend in pay process transparency

To explore trends in pay transparency, we asked participants whether during the last two years pay process transparency had changed. Overall results indicate that pay process transparency slightly increased over the last two years in organizations. Approximately 15% of the organizations indicated that pay process transparency has increased, while in over 80% of the organizations pay process transparency stayed the same and only a few organizations decreased pay process transparency.

3.2 Pay outcome transparency

Pay outcome transparency refers to the extent to which an organization voluntarily discloses information about actual, individual pay levels to its employees. In other words, in fully transparent organizations in terms of pay outcome, employees know exactly how much each of their colleagues earns. However, information on employees' actual pay can be released in many different forms. Some organizations provide exact individualized pay information, while others provide only aggregated pay information (e.g., pay bands, ranges, averages). Additionally, such information may be provided for all employees or only for an employee's reference group (e.g., only about other employees in the same pay grade or job).

We asked participants how much actual pay information the organization voluntarily discloses for each pay component displayed in Figure 5. Respondents answered on the following scale: 1) no or minimal information, 2) aggregated information for reference group, 3) aggregated information for all employees, 4) individual information for reference group, or 5) exact individual information for all employees.
Overall, only about 20% of the organizations have full pay outcome transparency and provide employees with exact individual pay information for all employees. The results displayed in Figure 5 reveal that pay outcome transparency is the most limited when it comes to individual-level variable pay, whereby 40% of organizations provide no or minimal information, 37% display aggregated information only, and 23% provide exact individual information on individual-level variable pay to their employees.

1 To ensure comparability between the different aspects of pay transparency we reduced the 5-point scale of pay process transparency to a 3-point scale. See the Appendix for more information on the scale reduction procedures.

2 See the Appendix for more information about the correlation coefficient (r) and the p-value (p).

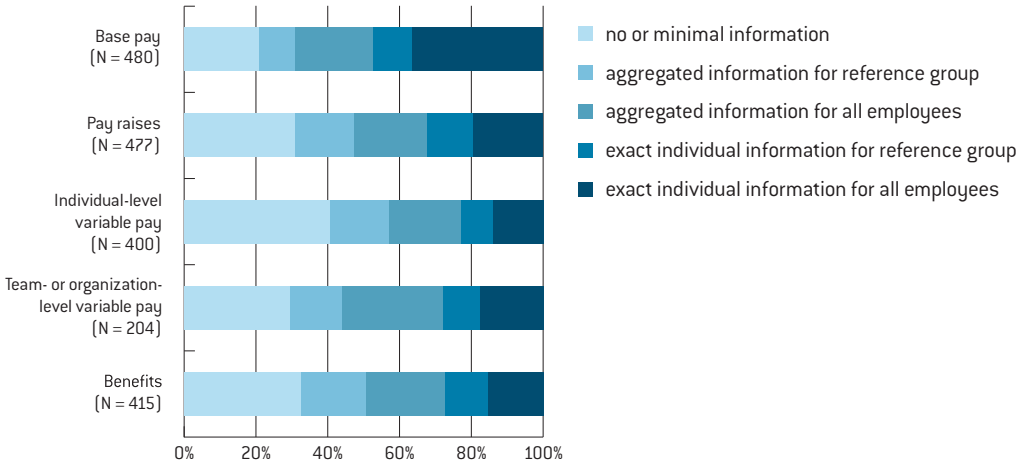


***Figure 5**: Pay outcome transparency*

Compared to individual-level variable pay, organizations are slightly more transparent about the actual levels of base pay, pay raises and team- or organization-level variable pay. Approximately 40% of the organizations provide aggregated and approximately 30% exact individual information. We observe the greatest pay outcome transparency for benefits: approximately 30% of the organizations provide aggregated information while approximately half of the organizations provide exact individual information about benefits to their employees.

Relationship with organizational characteristics

We also examined which organizations are more likely to provide pay outcome transparency[3]. Results show that compared to public organizations, private organizations are less likely to provide information about exact levels of base pay (r = -.28, p < .01) and pay raises (r = -.17, p < .01) to their employees. Furthermore, organizations with a higher percentage of unionized employees more often provide exact information on base pay (r = .14, p < .01) and pay raises (r = .13, p < .05) to their employees. Additionally, larger organizations are more likely to disclose the actual level of pay raises to their employees (r = .20, p < .01).

Trend in pay outcome transparency

To explore the trend in pay transparency, we asked participants how pay outcome transparency has changed over the last two years. Consistent with pay process transparency trends, only small changes toward more transparency were observed. Over 80% of organizations indicated that disclosure of actual pay information to employees stayed the same for all pay components. Approximately 15% of the organizations indicated that they provide employees with more information about other employees' actual pay levels compared to two years ago. Only a few organizations have decreased pay outcome transparency over the last two years.

3.3 Pay communication transparency

Pay communication transparency refers to the extent to which employees are free to discuss pay-related information with other employees inside the organization (i.e., the opposite of restricting communication about pay).

We asked participants to indicate the degree of pay communication transparency for each pay component using the following scale: 1) formal obligation to not discuss pay with peers that would be

3 To ensure comparability between the different aspects of pay transparency we reduced the 5-point scale of pay outcome transparency to a 3-point scale See the Appendix for more information on the scale reduction procedure.

punished in case of noncompliance, 2) formal obligation to not discuss pay with peers, 3) formal discouragement from discussing pay, 4) informal discouragement at several times, 5) informal discouragement at the beginning, and 6) no communication restriction.

The results displayed in Figure 6 show that organizations seldom restrict employees from discussing pay with other employees inside the organizations.

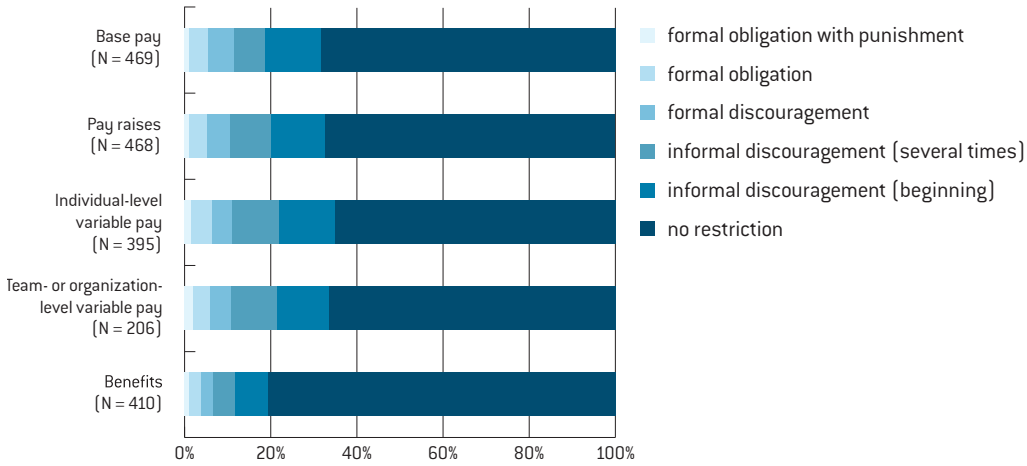


Figure 6: *Pay communication transparency*

The highest pay communication transparency exists for benefits (80% report no restriction, 13% report informal restriction and only 7% report formal restrictions). In approximately 66% of the organizations, employees are free to discuss base pay, pay raises, and variable pay with work colleagues. Approximately 23% of the organizations informally discourage and 11% formally discourage employees from discussing base pay, pay raise, and variable pay with other employees.

Relationship with organizational characteristics

By using ordinal correlation analysis, we also examined which organizations are more likely to let their employees discuss their pay with other employees inside the organization[4]. The results reveal that, compared to public organizations, employees in private organizations experience more communication restrictions when it comes to base pay ($r = -.22$, $p < .01$), pay raises ($r = -.23$, $p < .01$), individual-level variable pay ($r = -.20$, $p < .01$), and benefits ($r = -.11$, $p < .05$). The results further indicate that organizations with a higher percentage of unionized employees have higher pay communication transparency for all five pay components.

Trend in pay communication transparency

To explore the trend in pay communication transparency, we asked participants about changes in communication restrictions during the last two years. Overall, hardly any changes in this respect are observed. Approximately 94% of the organizations indicated that pay communication restriction stayed the same for all pay components. Only very few organizations changed pay communication restrictions during the last two years.

4 To ensure comparability between the different aspects of pay transparency we reduced the 6-point scale of pay communication transparency to a 3-point scale. See the Appendix for more information on the scale reduction procedure.

4 Pay practices and pay transparency

The extent to which an organization is transparent about pay may be influenced by many different factors such as national culture, governmental regulations, organizational culture, the composition of the workforce, or organizational pay policies and practices. In this study, we focus on the relationship between pay practices and pay transparency. In general, we would expect that pay practices that are easily explained, based on objective criteria, foster pay equity and are benevolent for employees are more likely to create favorable conditions for pay transparency.

In the following, we will first discuss pay practices for each pay component in more detail and then analyze the relationship between each pay component and its transparency by using ordinal correlation analysis.

4.1 Base pay transparency

Base pay is usually the main component of the overall pay package. In our sample, base pay represents over 90% of the overall pay package for employees, 78% for sales employees, and 80% for managerial level employees.

In the following, we consider whether the criteria used to determine base pay are related to transparency. Additionally, we explore whether the levels of pay dispersion and base pay compared to relevant competitors affects base pay transparency.

Criteria for base pay determination

We first asked study participants to indicate which criteria (see Figure 7) are considered when determining the base pay level for employees. Respondents answered on a scale ranging from 1 (no importance) to 5 (very high importance).

The results reveal that for participating organizations skills, knowledge, and competencies are the most important factors for determining base pay. Eighty-seven percent indicate that skills, knowledge and competencies are important or very important, followed by experience (80%), value of the position determined by job evaluation (66%), value of the position determined by market pricing (47%), and ability to pay (31%).

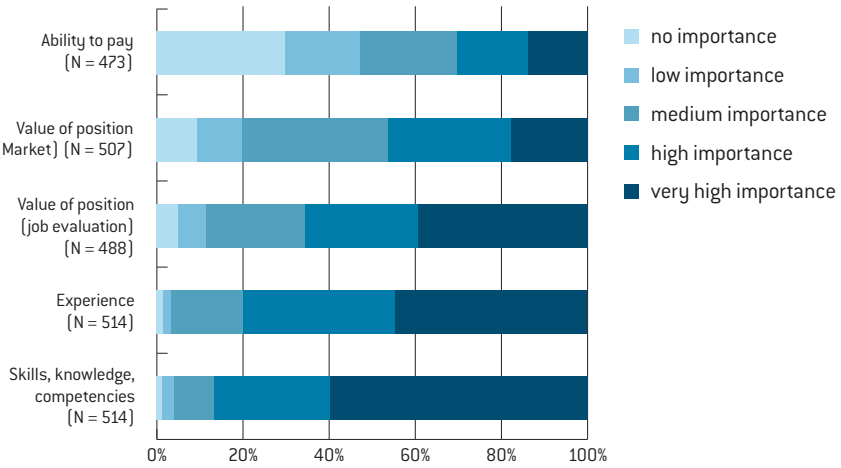


Figure 7: *Criteria for base pay determination*

To examine the relationship between these base pay practices and pay transparency, we correlated each criterion for base pay determination with each type of base pay transparency (process, outcome,

and communication transparency)[5]. The results displayed in Figure 8 demonstrate that the greater the importance of job evaluation for base pay determination, the more transparent organizations are about how base pay is determined (r = .19, p < .01) and about actual base pay levels (r = .12, p < .05).

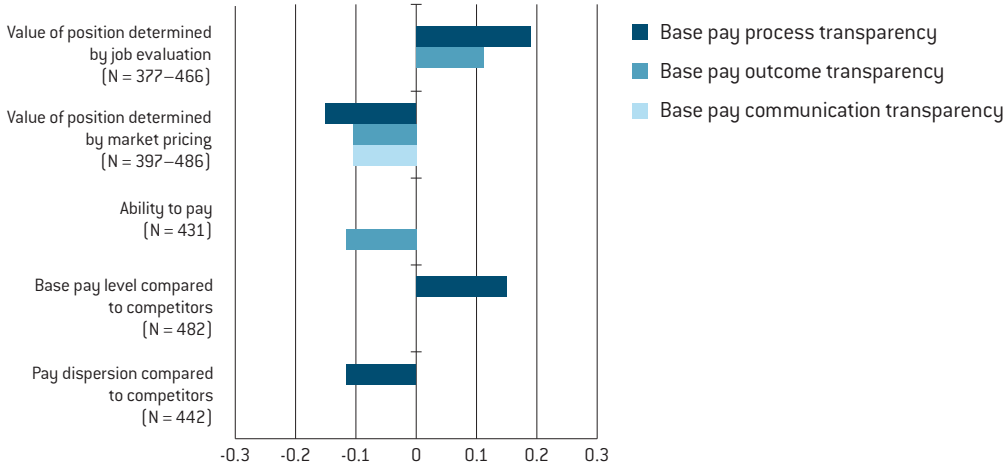


Figure 8: *Correlation between base pay practices and base pay transparency (only significant Spearman-Rho correlation coefficients are displayed)*[6]

In contrast, organizations are less transparent about how base pay is determined (r = -.16, p < .01), disclose less actual base pay information to their employees (r = -.10, p < .05), and are more likely to restrict employees from discussing base pay with other employees inside the organization (r = -.10, p < .05) if the level of base pay depends largely on the market value of the position. Moreover, organizations are more likely to restrict their employees from discussing base pay if the level of base pay largely depends on the organization's ability to pay (r = -.11, p < .05).

Base pay compared to competitors

Organizations that pay less than competitors may be more reluctant to disclose pay information to their employees. Therefore, we also asked study participants about their market positioning, or how their average base pay compared to relevant competitors. Respondents answered on a scale ranging from 1 (significantly less) to 5 (significantly more). The results reveal that 18% of the organizations offer on average lower base pay than competitors, 53% of the organizations offer about the same, and 29% indicates that they offer more than relevant competitors (see Figure 9).

5 To ensure comparability between the different aspects of pay transparency we reduced the scale of all aspects of pay transparency (process, outcome and communication transparency) to a 3-point scale. See the Appendix for more information on the scale reduction procedure.

6 See the Appendix for more information about the correlation coefficient (r) and the p-value (p).

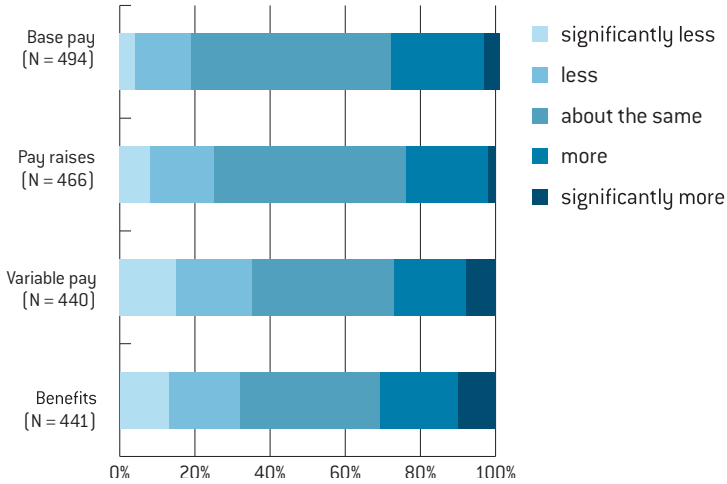


Figure 9: Pay compared to relevant competitors

To examine the relationship between market pay and pay transparency, we correlated the index of base pay level compared to competitors with each type of base pay transparency (process, outcome and communication transparency). The results displayed in Figure 8 reveal that organizations that pay higher base pay than competitors are more likely to explain to employees how base pay is determined ($r = .15$, $p < .01$). However, paying over the market does not affect base pay outcome and communication transparency.

Pay dispersion compared to competitors

Organizations that have large pay differences may be reluctant to disclose pay information to their employees. Therefore, study participants were asked to indicate how their pay differences compare to relevant competitors. Specifically, we explored three different types of pay dispersion: pay differences between 1) employees within the same job, 2) employees within the same team, and 3) the highest and lowest paid employees in the organization.

The results displayed in Figure 10 indicate that about half of the organizations reported approximately the same pay differences as competitors between the lowest and the highest paid employees (52%), within the same team (62%), and within the same job (57%). Approximately one quarter of the organizations have either smaller or bigger pay differences for the three aspects of pay dispersion.

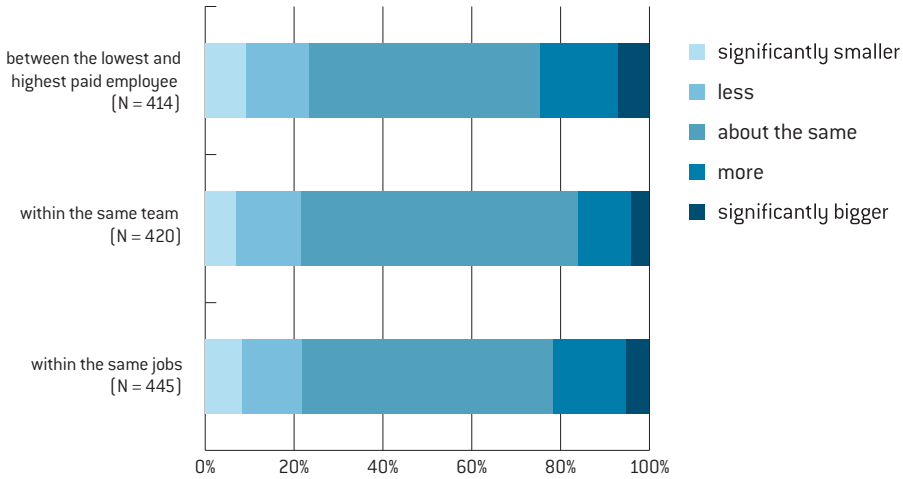


Figure 10: Pay dispersion compared to relevant competitors

To examine the relationship between pay dispersion and pay transparency, we correlated the index of pay dispersion with all three forms of base pay transparency (process, outcome, and communication

transparency). The results show that organizations that have higher pay dispersion compared to relevant competitors are less transparent about how base pay is determined (r = -.13, p < .01). Thus, pay dispersion seems to be an important factor related to organizations' pay process transparency.

4.2 Pay raise transparency

Organizations' pay raises are often negotiated annually and then communicated simultaneously to the entire workforce. As annual pay raises draw employees' attention simultaneously toward pay issues every year, organizations face a challenge in determining the level of transparency for pay raises.
In the following, we consider how both the different options available for determining pay raises and the market positioning of pay raises relate to pay raise transparency.

Criteria for pay raise determination

Study participants were first asked to indicate which criteria are important for determining pay raises (see Figure 11). Respondents answered on a scale ranging from 1 (not importance) to 5 (very high importance).

Figure 11 reveals that participating organizations rank individual performance as the most important criterion for determining pay raise. Seventy-six percent indicate that individual performance is either important or very important, followed by position in the pay range (58%); skills, knowledge and competence acquisition (55%); team- or organization-level performance (46%); market value of the position (41%); and seniority (30%). In 26% of the organizations, pay raises given to the entire workforce (e.g., cost of living adjustments) are important.

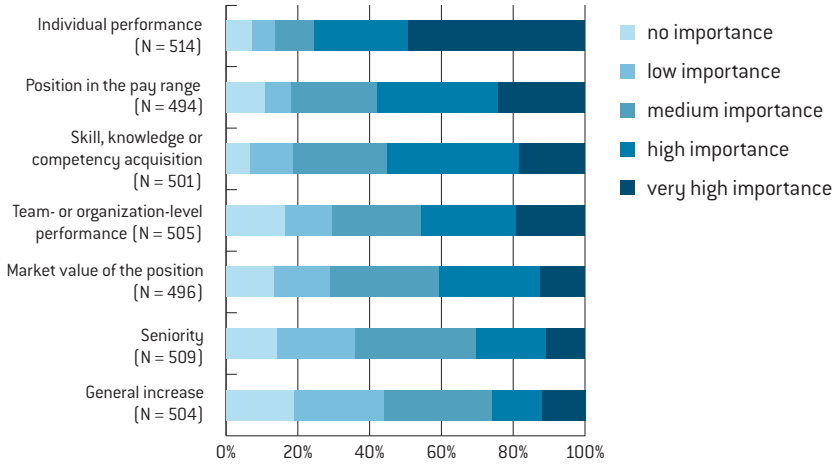


Figure 11: *Criteria for pay raise determination*

To examine the relationship between pay raise practices and pay transparency, we correlated each criterion for pay raise determination with all three types of pay raise transparency (process, outcome, and communication transparency)[7]. In Figure 12, all statistically significant correlation coefficients are displayed[8]. The results illustrate that organizations that determine pay raise using market value of the position (r = -.16, p < .01) or team- or organization-level performance (r = -.14, p < .01) are less likely to allow employees to freely discuss pay raises.

7 See the Appendix for more information on the scale reduction procedure.

8 See the Appendix for more information about the correlation coefficient (r) and the p-value (p).

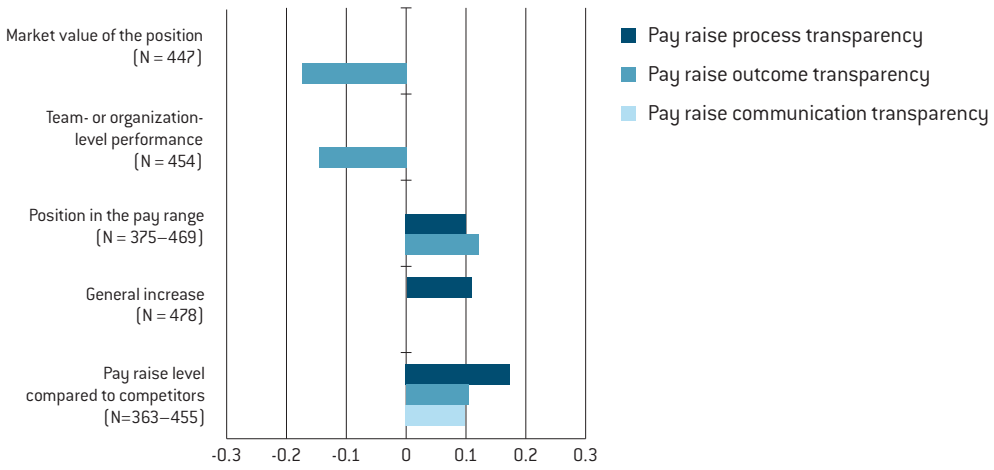


Figure 12: *Correlation between pay raise practices and pay raise transparency (only significant Spearman-Rho correlation coefficients are displayed)*[9]

In contrast, organizations that base their pay raise decisions largely on the position in the pay range are more transparent about how pay raises are determined ($r = .10$, $p < .05$) and also disclose more actual pay raise information ($r = .13$, $p < .05$). Moreover, organizations that give pay raises to the entire workforce (e.g., cost of living adjustments) are more transparent about how pay raises are determined ($r = .13$, $p < .01$).

Pay raise compared to competitors

Twenty-five percent of the participating organizations indicate that they offer smaller pay raises and 24% offer higher pay raises than competitors (see Figure 9). The remaining half of the organizations offers the same level of pay raises as competitors.

We used ordinal correlation analysis to examine the relationship between the level of pay raises compared to competitors and pay raise transparency. The results displayed in Figure 12 reveal that organizations that offer higher pay raises compared to the market are more transparent about all aspects of pay raise transparency. Thus, organizations with above the market pay raises are more transparent about how pay raises are determined ($r = .17$, $p < .01$), disclose more information on actual pay raise levels ($r = .10$, $p < .05$), and are more open to employees discussing pay raises ($r = .10$, $p < .05$).

4.3 Variable pay transparency

Many organizations use some form of variable pay to motivate employees. According to our study, variable pay represents about 5% of the overall pay package for employees, but this increases to 19% for sales employees and 15% for m anagerial employees.

In the following, we will shed light on what kind of variable pay organizations offer to their employees in Switzerland and the how variable pay type relates to transparency. As variable pay can be offered at different levels, we distinguish between individual-level variable pay and team- or organization-level variable pay. Moreover, we focus on how the variable pay package compares to the market and whether organizations use, respectively, subjective/objective and relative/absolute criteria to evaluate individual performance. Finally, we investigate the relationship of performance evaluation and market positioning with variable pay transparency.

Availability of variable pay

We investigated the types of **individual-level variable pay** organizations offer to their employees. Study respondents were asked to indicate whether their organization offered any of the following types of

9 See the Appendix for more information about the correlation coefficient (r) and the p-value (p).

individual-level variable pay to at least some of their employees that are displayed in Figure 13. The results indicate that 14% of responding organizations do not offer any individual-level variable pay.

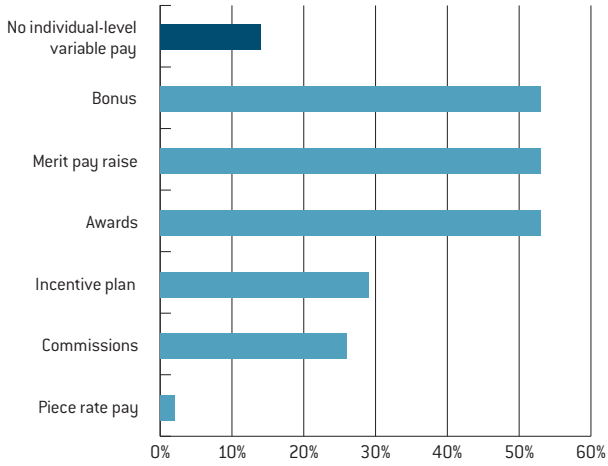


Figure 13: *Individual-level variable pay (N = 526)*

More than half of the organizations offer bonus (without predetermined objectives), merit pay raises (performance-related pay raises), or awards for special achievements for at least some of their employees, while 29% offer incentive plans (with predetermined objectives), 26% commission plans, and 2% have piece rate pay for at least some of their employees (see Figure 13).

Furthermore, we investigated what types of **team- or organization-level variable pay** organizations offer to their employees. Respondents were asked to indicate if their organization offers any of the forms of team- or organization-level variable pay that are displayed in Figure 14 to at least some of their employees.

The results demonstrate that over half of the surveyed organizations do not offer any team- or organization-level variable pay. Among the organizations that offer team- or organization-level variable pay, team bonus is the most frequently used (18%), followed by gain sharing plans (13%), profit sharing plans (11%)[10], incentive plans for teams (10%), and stock option plans (10%).

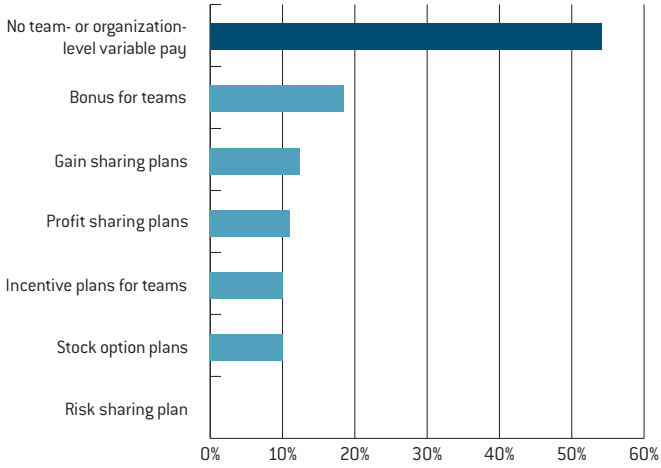


Figure 14: *Team or organization-level variable pay (N = 526)*

10 Gain sharing plans return cost savings to the employees, usually as a lumpsum bonus. Gain sharing is a productivity measure, as opposed to profit sharing which is a profitability measure.

Performance evaluation

A key element of variable pay plans is performance evaluation. In our sample, 96% of the participating organizations use some kind of individual performance evaluation. According to previous research, two aspects of performance evaluation are fundamental for pay transparency[7].

First, performance evaluation can vary in terms of how objectively versus subjectively performance is evaluated (objectivity of performance evaluation). Sometimes, performance measures are objective and quantifiable, for example the number of produced products or financial measures, whereas sometimes performance measures are subjective and often tied to supervisors' personal assessments of an employee's attitudes and behaviors. Second, performance evaluation can vary in terms of how it is translated into actual pay outcome (pay determination criteria). Performance can be evaluated with absolute performance criteria meaning that an employee's performance is evaluated against predetermined standards or performance can be evaluated with relative performance criteria, meaning that performance is evaluated relative to the performance of the employee's peers.

To measure **objectivity of performance evaluation,** we asked participating organizations whether individual performance used for determination of 1) incentives, 2) bonus, 3) merit pay raise, and 4) awards for special achievements is more likely to be measured with subjective or objective performance criteria. Respondents answered on a scale ranging from 1 (mainly subjective performance criteria) to 5 (mainly objective performance criteria).

Figure 15 reveals that many organizations use objective performance criteria to evaluate individual performance for incentives (62%) followed by bonus (57%), merit pay raises (46%), and awards for special achievements (45%).

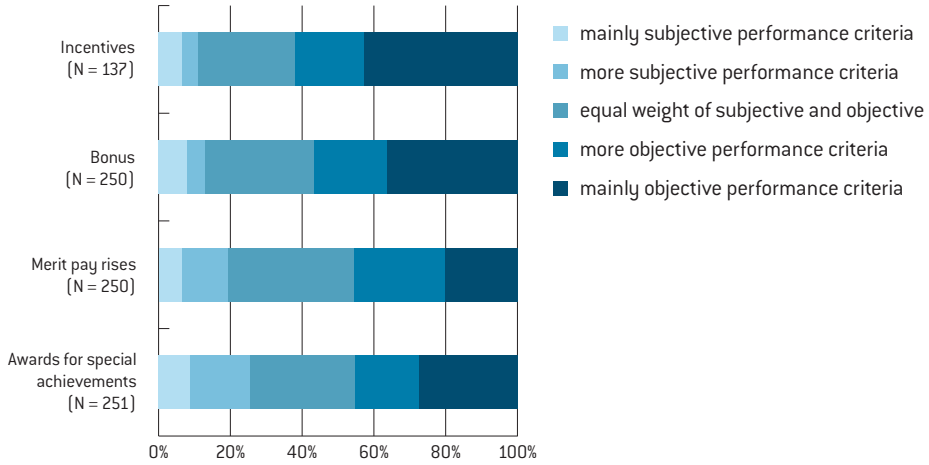


Figure 15: *Objectivity of performance evaluation*

To examine the relationship between objectivity of performance evaluation and pay transparency, we correlated the index of objectivity of performance evaluation with all three forms of individual-level as well as team- and organization-level variable pay transparency (process, outcome, and communication transparency)[11].

11 See the Appendix for more information on the scale reduction procedure.

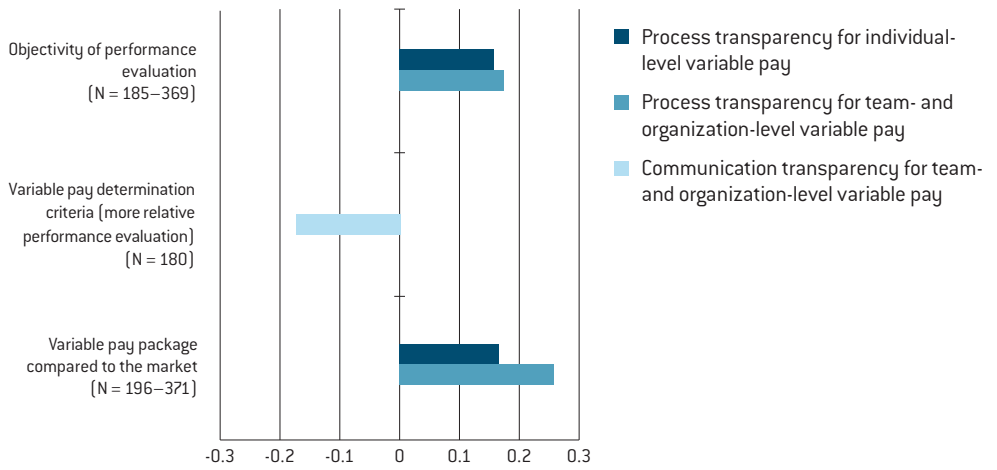


Figure 16: Correlation between variable pay practices and variable pay transparency (only significant Spearman-Rho correlation coefficients are displayed)[12]

The results displayed in Figure 16 reveal that organizations that use more objective measures to evaluate individual performance are more transparent about how individual-level variable pay ($r = .14$, $p < .01$) and team- and organization-level variable pay ($r = .16$, $p < .05$) are determined. In other words, organizations that use more subjective measures for performance evaluation are more secretive about how variable pay is determined.

Furthermore, we examined whether **variable pay determination criteria** are related to pay transparency. To measure variable pay determination criteria, we asked organizations whether individual performance for 1) incentives, 2) bonus, 3) merit pay raises, and 4) awards for special achievements is measured with absolute performance criteria (evaluation against predetermined standards) or relative performance criteria (evaluation relative to that of the employee's peers). Respondents answered on a scale ranging from 1 (mainly absolute performance criteria) to 5 (mainly relative performance criteria).

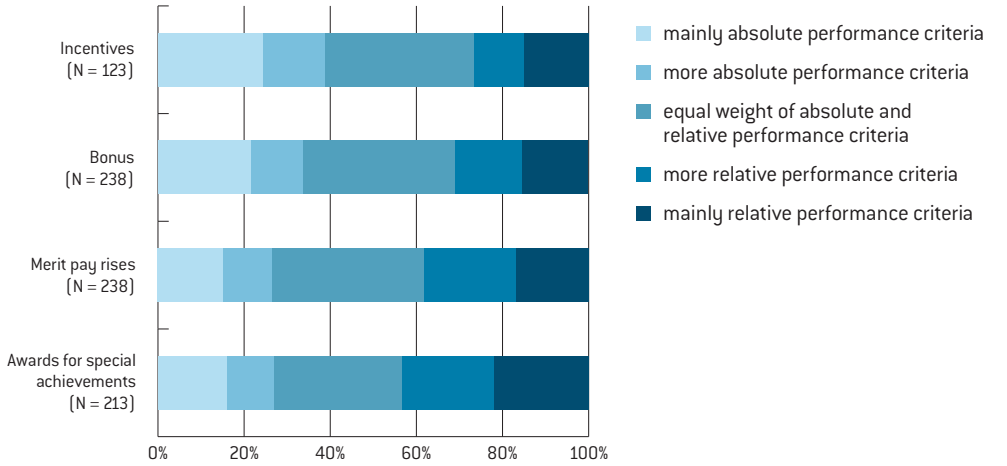


Figure 17: Pay determination criteria

Figure 17 reveals that relative performance criteria are most often used to determine awards for special achievements (43%), followed by merit pay raises (38%), bonus (31%), and incentives (27%).

12 See the Appendix for more information about the correlation coefficient (r) and the p-value (p).

To examine the relationship between pay determination criteria and pay transparency, we correlated the index of pay determination criteria with all three forms of individual-level as well as team- and organization-level variable pay transparency (process, outcome, and communication transparency)[13].

The results displayed in Figure 16 reveal that organizations that use more relative performance evaluation criteria to determine pay are less likely to allow employees to freely discuss team- or organization-level variable pay (r = -.18, p < .05). Thus, when employees' performance is measured relative to that of work colleagues, organizations are more likely to restrict employees from discussing variable pay.

Variable pay compared to competitors

About one third of the participating organizations indicate that they offer on average lower variable pay and one quarter offers higher variable pay than relevant competitors (see Figure 9). The remaining 38% of the participating organizations offer about the same as relevant competitors.

We further examined the relationship between the level of variable pay compared to competitors (i.e., market positioning of variable pay) and all three forms of individual-level as well as team- and organization-level variable pay transparency (process, outcome, and communication transparency)[14].

The results displayed in Figure 16 show that organizations that offer higher variable pay packages than competitors are more transparent about how individual (r = .20, p < .01), and team- or organization-level variable pay are determined (r = .26, p < .01).

4.4 Benefits transparency

According to our study, benefits represent 3% of the overall pay package for employees, and 4% for sales employees and managerial employees. We first asked about the types of benefits organizations offer to their employees and how the benefits package compares to relevant competitors. Then, we investigated the relationship between benefits as compared to competitors and benefits transparency.

Availability of benefits

We asked participating organizations whether they offer any of the benefits displayed in Figure 18 in excess of statutory requirements to at least some of their employees. The results reveal that only 11% of the surveyed organizations do not offer any benefits.

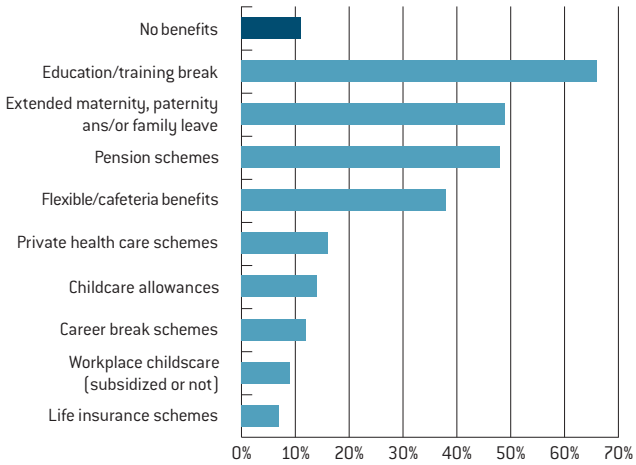


Figure 18: *Benefits (N = 524)*

13 See the Appendix for more information on the scale reduction procedure.

14 See the Appendix for more information on the scale reduction procedure.

Sixty-six percent of the participating organizations offer education or training breaks while about half of the organizations offer extended maternity, paternity and/or family leave, about half offer pension schemes, and 38% offer flexible benefits. Fewer organizations offer benefits such as private health care schemes (16%), childcare allowances (14%), career break schemes (12%), workplace childcare (subsidized or not) (9%), or life insurance schemes (7%).

Benefits compared to competitors

Thirty-two percent of the organizations reported that they offer fewer benefits than relevant competitors, 37% offer about the same, and 31% offer more benefits than relevant competitors (see Figure 9). We used ordinal correlation analysis to examine the relationship between the level of benefits compared to competitors and all three forms of benefits transparency (process, outcome, and communication transparency)[15].

The results reveal that organizations that offer above-the-market benefits packages are more transparent about how benefits are determined ($r = .20$, $p < .01$) and about the actual level of benefits ($r = .14$, $p < .05$).

15 See the Appendix for more information on the scale reduction procedure.

5 Pay transparency and organizational results

Although our research design does not allow for an examination of the causal effects of transparency, we explored to what extent pay transparency relates to salient organizational results. Specifically, we examined whether the three different types of pay transparency (pay process, outcome and communication transparency) for all pay components (base pay, pay raise, variable pay and benefits) relate to five different aspects of performance results: 1) pay effectiveness, 2) social capital, 3) voluntary turnover, 4) organizational performance, and 5) gender equal pay analysis.

5.1 Pay effectiveness

Pay effectiveness refers to the extent to which the pay system contributes to the achievement of organizational goals. Study participants assessed the pay effectiveness of their organization by indicating their agreement with the following four statements: Our pay policies and practices are 1) highly effective, 2) appear to enjoy widespread acceptability among employees, 3) greatly contribute to attraction, retention, and motivation of employees and 4) management is very happy with the way the compensation system contributes to the achievement of overall organizational goals[8]. Respondents evaluated whether they agree with these statements on a scale ranging from 1 (not at all) to 5 (to a very great extent). We created an index for pay effectiveness by calculating the mean value for all four items of pay effectiveness.

We conducted ordinal correlation analyses to measure the relationship between all components (base pay, pay raises, variable pay, and benefits) of each aspect of pay transparency (pay procedure, outcome, and communication transparency)[16] and the index of pay effectiveness. The results show that all components of pay process transparency are positively related to pay effectiveness (see Figure 19).

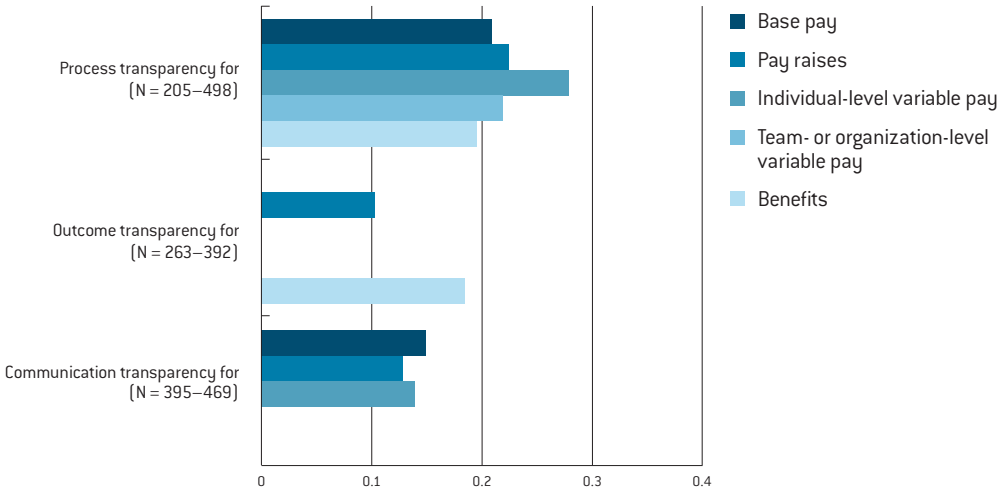


Figure 19: Correlation between pay transparency and pay effectiveness *(only significant Spearman-Rho correlation coefficients are displayed)*[17]

16 To ensure comparability between the different aspects of pay transparency we reduced the scale of all aspects of pay transparency (process, outcome and communication transparency) to a 3-point scale. See the Appendix for more information on the scale reduction procedure.

17 See the Appendix for more information about the correlation coefficient (r) and the p-value (p).

Thus, organizations that provide more information about how base pay ($r = .20$, $p < .01$), pay raises ($r = .22$, $p < .01$), individual-level variable pay ($r = .28$, $p < .01$), team- and organization-level variable pay ($r = .22$, $p < .01$), and benefits ($r = .21$, $p < .01$) are determined, perceive their pay policies and practices as more effective.

For pay outcome transparency, we observe that higher outcome transparency for pay raises ($r = .10$, $p < .05$) and benefits ($r = .18$, $p < .01$) is positively related to pay effectiveness. Thus, organizations that provide more information about actual pay raise levels and the actual levels of benefits perceive their pay policies and practices as more effective.

Moreover, organizations that perceive their pay policies and practices as more effective indicate that they have higher pay communication transparency for base pay ($r = .14$, $p < .01$), pay raises ($r = .13$, $p < .01$), and individual-level variable pay ($r = .15$, $p < .01$). In other words, organizations that restrict employees less from discussing base pay, pay raises and individual-level variable pay perceive their pay policies and practices to be more effective.

5.2 Social capital

An organization's social capital can be understood as the links, shared values, and understandings in an organization that enable individuals and groups to trust each other and work together. It constitutes a contextual complement to human capital and may be a source of competitive advantage for organizations as it is valuable, rare, and difficult to imitate[9].

To measure social capital, respondents evaluated if they agreed with the following three statements: Employees in this organization 1) are skilled at collaborating with each other to diagnose and solve problems, 2) share information and learn from one another, and 3) interact and exchange ideas with people from different areas of the company[10]. Respondents indicated their agreement with those statements on a scale ranging from 1 (not at all) to 5 (to a very great extent). We created an index for social capital by calculating the mean value for all three items of social capital.

We conducted ordinal correlation analyses to measure the relationship between all components (base pay, pay raises, variable pay, and benefits) of each aspect of pay transparency (pay procedure, outcome, and communication transparency)[18] and the index of social capital. The results displayed in Figure 20 illustrate that only pay process transparency is related to social capital.

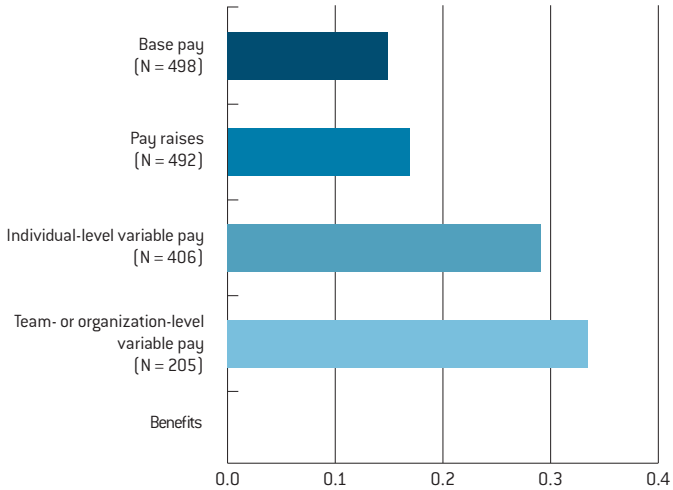


Figure 20: Correlation between pay process transparentcy and social capital *(only significant Spearman-Rho correlation coefficients are displayed)*[19]

18 See the Appendix for more information on the scale reduction procedure.

19 See the Appendix for more information about the correlation coefficient (r) and the p-value (p).

More specifically, organizations that are more transparent about how base pay ($r = .15$, $p < .01$), pay raises ($r = .17$, $p < .01$), individual- ($r = .29$, $p < .01$) and team- and organization-level variable pay ($r = .34$, $p < .01$) are determined also report higher levels of social capital.

Thus, organizations that are more transparent about the criteria and processes to determine base pay, pay raises, and variable pay indicate that their employees are more collaborative, share information, and interact and exchange ideas more often. However, organizations that provide more actual pay information (pay outcome transparency) or allow employees to freely discuss this (pay communication transparency) do not report higher levels of social capital.

5.3 Organizational performance

To capture organizational performance, we asked study participants to indicate how well their organization is doing compared to relevant competitors in the following areas: 1) quality of products, services, or programs; 2) development of new products, services, or programs; 3) satisfaction of customers or clients; and 4) financial performance (customary way you track the success of your finances)[11]. Respondents answered on a scale ranging from 1 (far below average) to 5 (far above average). We created an index for organizational performance by calculating the mean value for all four items of organizational performance.

We then conducted ordinal correlation analyses to measure the relationship between all components (base pay, pay raises, variable pay, and benefits) of each aspect of pay transparency (pay procedure, outcome, and communication transparency)[20] and the index of organizational performance.

The results demonstrate that only aspects of pay process and pay outcome transparency are related to organizational performance (see Figure 21). Specifically, organizations that are more transparent about how individual- ($r = .19$, $p < .01$) as well as team- or organization-level variable pay ($r = .21$, $p < .01$) and benefits ($r = .20$, $p < .01$) are determined report higher organizational performance. Furthermore, organizations that are more transparent about the actual level of the benefits package report higher organizational performance ($r = .12$, $p < .05$).

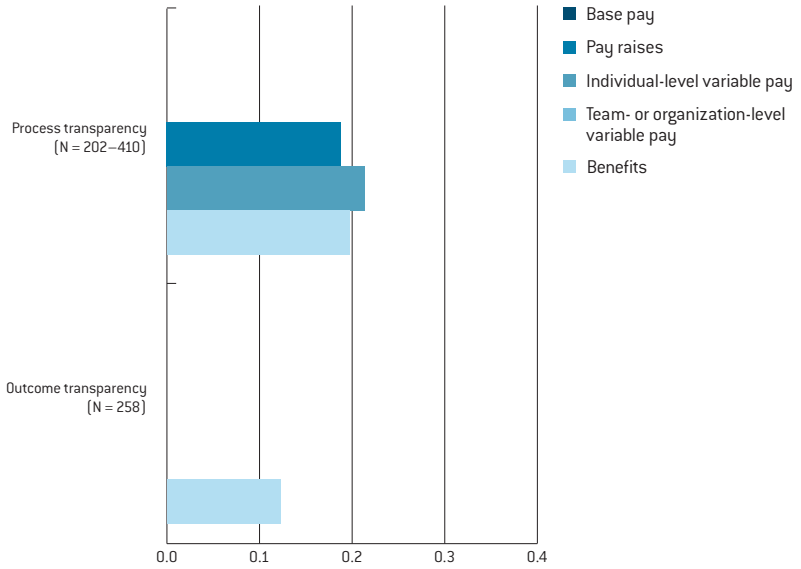


Figure 21: Correlation between pay transparency and organizational performance (only significant Spearman-Rho correlation coefficients are displayed)[21]

20 See the Appendix for more information on the scale reduction procedure.

21 See the Appendix for more information about the correlation coefficient (r) and the p-value (p).

5.4 Voluntary turnover

Voluntary turnover can result in high costs for organizations such as costs associated with recruiting and hiring, but also more intangible costs such as knowledge loss or a loss of efficiency and continuity. To measure voluntary turnover, we asked study participants to indicate the approximate percentage of employees who voluntarily left the organization in the calendar year preceding the survey.

We conducted ordinal correlation analyses to measure the relationship between all components (base pay, pay raises, variable pay, and benefits) of each aspect of pay transparency (pay procedure, outcome, and communication transparency)[22] and voluntary turnover rates.

The results displayed in Figure 22 show that voluntary turnover is negatively related to aspects of pay process transparency. Specifically, organizations that are more transparent about how base pay (r = -.12, p < .01), pay raises (r = -.14, p < .01), and individual-level variable pay (r = -.13, p < .01) are determined report lower voluntary turnover rates. In turn, organizations that offer pay outcome and pay communication transparency do not report lower voluntary turnover rates.

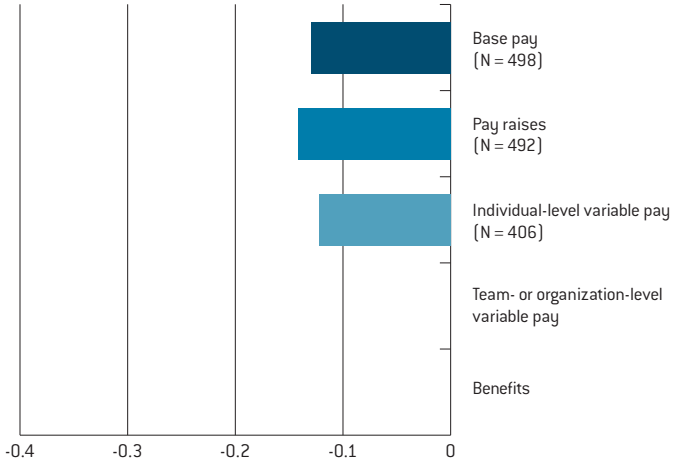


Figure 22: Correlation between pay process transparency and voluntary turnover (only significant Spearman-Rho correlation coefficients are displayed)[23]

5.5 Gender equal pay analysis

Even though the principle of equal pay for equal work is embedded in the Federal Constitution and the Gender Equality Act, there still exists an unexplained gender pay gap of 8.3% in Switzerland (8.7% in the private sector and 6.5% in the public sector)[12]. To close the gender pay gap, the Swiss Federal Council is preparing a draft bill in which organizations with more than 50 employees will be forced to conduct an equal pay analysis every four years and inform employees about potential pay discrimination[6].
We asked participating organizations whether the organization had evaluated, in the calendar year 2016, whether female and male employees who do equal work get paid equally. Respondents chose from the following options: 1) no, we have not performed such an evaluation; 2) yes, we did an internal self-evaluation; and 3) yes, we had an external evaluation done.

The results indicate that 57% of the participating organizations did an equal pay analysis. Specifically, 45% of the organizations indicated that they did an internal self-evaluation, 10% had an external evaluation done, and 2% of the participating organizations performed both an internal and external equal pay analysis.

22 See the Appendix for more information on the scale reduction procedure.

23 See the Appendix for more information about the correlation coefficient (r) and the p-value (p).

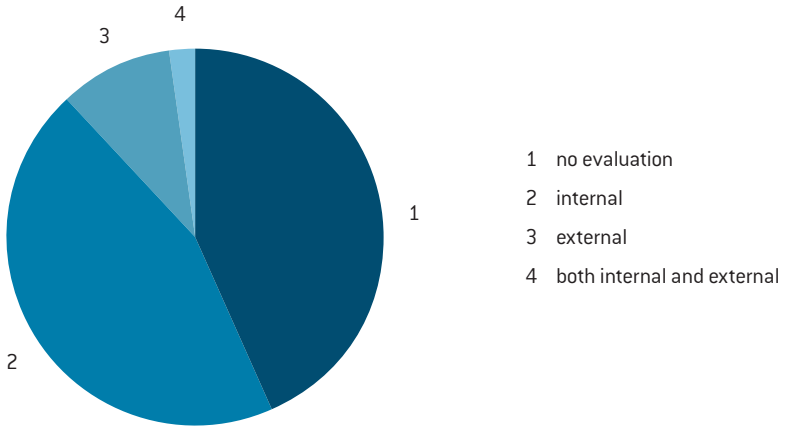


Figure 23: Gender equal pay analysis (N = 447)

We conducted ordinal correlation analyses to measure the relationship between all components (base pay, pay raises, variable pay, and benefits) of each aspect of pay transparency (pay procedure, outcome, and communication transparency)[24] and conducted an equal pay analysis.

The results displayed in Figure 24 show that organizations that are more transparent about how base pay ($r = .09$, $p < .05$) and pay raises ($r = .10$, $p < .05$) are determined are more likely to have conducted an equal pay analysis.

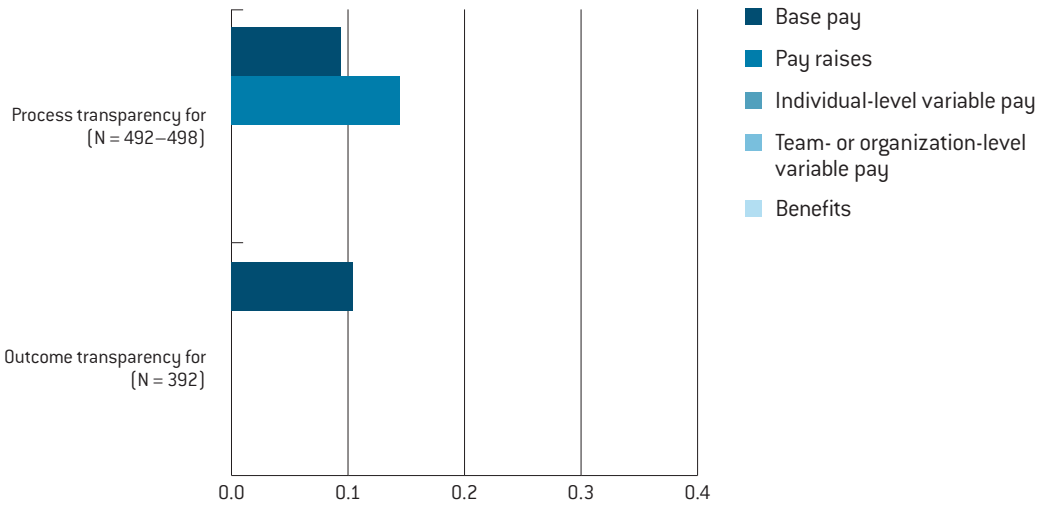


Figure 24: Correlation between pay transparency and equal pay analysis (only significant Spearman-Rho correlation coefficients are displayed)[25]

Furthermore, organizations that are more transparent about actual individual pay raise levels are more likely to have evaluated whether female and male employees who do equal work get paid equally ($r = .15$, $p < .01$).

24 See the Appendix for more information on the scale reduction procedure.

25 See the Appendix for more information about the correlation coefficient (r) and the p-value (p).

Closing Remarks

The present study provides an overview of the compensation and pay transparency landscape in Switzerland. Evidence from more than 500 survey respondents reveals that organizations differ widely in terms of how much pay information they disclose to their employees, reflecting the existing mix of opinions regarding pay transparency.

Overall, approximately only half of the organizations are transparent about how different pay components are determined (pay process transparency). For variable pay, in particular, this may be counterproductive. For variable pay to be effective, employees should, at a minimum, have a clear understanding of how variable pay is determined and what they can do to increase their pay outcome. Indeed, our study provides further evidence that transparency may pay off, as being transparent about how variable pay is determined is related to higher organizational performance. However, the level of transparency for variable pay depends on how performance is measured. For example, organizations that more often use objective performance criteria to measure employee performance are more transparent about how variable pay is determined.

In terms of pay outcome transparency, about one third of the organizations indicate that they reveal no or only minimal information on actual pay outcomes to their employees. With the millennial generation moving into the labor market, organizations may be advised to consider opening up about pay. Our study, for example, indicates that organizations that provide more information about actual pay raise levels and disclose information about the actual level of benefits perceive their pay policies and practices as more effective. If organizations are hesitant to completely open up about individual pay levels, they can still consider displaying aggregated pay information (e.g., bands or means). By doing so, organizations give employees a better and more realistic understanding of what to expect in terms of pay outcomes, while maintaining sufficient discretion to accommodate reasonable exceptions or pay differences.

Despite the fact that the Swiss Federal Court decided in 2010 that compensation is not regarded as a business secret and therefore employees are in general free to discuss pay at work, approximately one third of the organizations either formally or informally restrict employees from discussing pay. However, research shows that such pay communication restriction practices do not keep employees from discussing pay[13]. On the contrary, such pay communication restrictions might even raise suspicions about the organization's pay practices and therefore backfire in the long run.

Turning to the relationship between pay practices and pay transparency, we observe that organizations use pay transparency as a strategic tool. Pay practices that are easy to explain, based on objective criteria, foster pay equity, and are benevolent for employees are more likely to create favorable conditions for pay transparency. For example, results for all dimensions of pay reveal that organizations that pay more than relevant competitors are more transparent about pay. Thus, when organizations pay above the market, even if employees feel underpaid when compared to their colleagues, they are more likely to accept it knowing that they are at least better paid than the market. Moreover, organizations are more transparent about base pay when using job evaluation to determine base pay, possibly because it is easier for organizations to justify pay decisions based on this relatively objective pay determination process. On the other hand, organizations seem to be more secretive about base pay when pay dispersion is higher, suggesting that it is more challenging for organizations to explain bigger pay differences to employees, and/or that organizations that tend or are required to be transparent strategically strive for smaller pay differences as a result.

Survey results further indicate that pay transparency is positively related to perceived pay effectiveness, social capital, and organizational performance and negatively related to voluntary turnover. In-

terestingly, pay outcome and pay communication transparency are only related to pay effectiveness, organizational performance, and equal pay analysis, while pay process transparency is related to all forms of organizational outcomes, suggesting that pay process transparency plays a more major role in shaping organizational results. Thus, although pay transparency is often understood as disclosure of every single employee's pay information, it seems more important to be transparent about the criteria and processes by which pay is determined than disclosing actual pay data.

Over half of the organizations surveyed reported that they previously conducted an equal pay analysis in the preceding year (2016). Organizations with higher process and outcome transparency for base pay and pay raises were more likely to have conducted a prior equal pay analysis; while our results cannot fully tease apart cause and effect, it may be that the results of an equal pay analysis, or perhaps even just the process of doing one, encourages organizations to be more transparent in the future. Thus, a forced equal pay analysis in Switzerland for organizations with more than 50 employees might increase pay transparency for medium and large organizations. However, in Switzerland, nearly half of all employees are employed by organizations with less than 50 employees. Thus, even though the draft bill is a step in the right direction, it might be necessary and desirable to eventually introduce pay transparency policies for smaller organizations too.

In our next wave of research, we will be further exploring different aspects of pay transparency as they are experienced by employees, evaluating transparency's effects on worker outcomes like job satisfaction, motivation, and likelihood of leaving for a different company. If your organization would be interested in participating in this research, please contact us at Alexandra.Arnold@unilu.ch (in Switzerland), Ingrid.Fulmer@unisa.edu.au (in Australia), and/or David.Allen@tcu.edu (in the U.S.).

Appendix

Contact

Center for Human Resource Management (CEHRM)
University of Lucerne
Frohburgstrasse 3
P.O. Box 4466
6002 Lucerne
Switzerland
T +41 41 229 58 62

The Study Authors

Alexandra Arnold, PhD
Center for Human Resource Management (CEHRM)
University of Lucerne
alexandra.arnold@unilu.ch

Prof. Ingrid. S. Fulmer
Centre for Workplace Excellence (CWeX)
University of South Australia Business School
ingrid.fulmer@unisa.edu.au

Anna Sender, PhD
Center for Human Resource Management (CEHRM)
University of Lucerne
anna.sender@unilu.ch

Prof. David G. Allen
Neeley School of Business, Texas Christian University (U.S.)
University of Warwick (UK)
david.allen@tcu.edu

Prof. Bruno Staffelbach
Center for Human Resource Management (CEHRM)
University of Lucerne
bruno.staffelbach@unilu.ch

References

[1] Marasi, S. & Bennett, R. J. (2015). Pay communication: Where do we go from here? *Human Resource Management Review,* 26(1), 50-58.

[2] CRANET (2011). CRANET survey on comparative human resource management: International Executive Report 2011. Retrived from http://www.ef.uns.ac.rs/cranet/download/cranet_report_2012_280212.pdf

[3] Statistik der Unternehmensstruktur (STATENT): https://www.bfs.admin.ch/bfs/de/home/statistiken/industrie-dienstleistungen/erhebungen/statent.html. Retrieved on August 24, 2017.

[4] Colella, A., Paetzold, R. L., Zardkoohi, A., & Wesson, M. J. (2007). Exposing pay secrecy. *Academy of Management Review,* 32(1), 55–71.

[5] Gee, K. (2017). Ask me how much money I make: Pay gets more transparent. *The Wallstreet Journal.*

[6] Wozny, N. (2017). *Sommaruga macht Ernst mit Lohntransparenz.* Tages Anzeiger.

[7] Belogolovsky, E., & Bamberger, P. A. (2014). Signaling in secret: Pay for performance and the incentive and sorting effects of pay secrecy. *Academy of Management Journal,* 57(6), 1706–1733.

[8] Balkin, D. B., & Gomez-Mejia, L. R. (1990). Matching compensation and organizational strategies. *Strategic Management Journal,* 11(2), 153–169.

[9] Nahapiet, J. & Ghoshal, S. (1998). Social capital, intellectual capital, and the organizational advantage. *Academy of Management Review,* 23(2), 242–266.

[10] Subramaniam, M., & Youndt, M. A. (2005). The influence of intellectual capital on the types of innovative capabilities. *Academy of Management Journal,* 48(3), 450–463.

[11] Delaney, J., & Huselid, M. A. (1996). The impact of human resource management practices on perceptions of organizational performance. *Academy of Management Journal,* 39(4), 949–969.

[12] S. Strub, A. Abrassart, L. Bannwart, & T. Oesch (2016). *Analysis of the wages of men and women based on the Earnings Structure Survey 2012.* Commissioned by the Wages and Working Conditions Section, Economy Division of the Federal Statistical Office, FSO.

[13] Day, N. E. (2012). Pay equity as a mediator of the relationships among attitudes and communication about pay level determination and pay secrecy. *Journal of Leadership & Organizational Studies,* 19(4), 462–476.

Statistics language

N **Sample Size**
The number of observations (here organizations) included in the analysis.

SD **Standard Deviation**
This statistic describes how close the data is to the average value: A large standard deviation indicates that the data is spread out over a wide range.

r **Correlation Coefficient**
A measure of the strength and the direction of a linear relationship between two variables. It can take a value from -1 to 1 with the value of -1 indicating a totally negative relationship, a value of 1 a totally positive relationship. 0 indicates no relationship exists.

p **P-Value**
This value indicates the significance of a statistical result. A p-value smaller than .05 indicates that the observed effect is unlikely to have arisen purely by chance.

Scale reduction procedure

To ensure comparability between different aspects of pay transparency, we reduced the original categorization of pay process transparency (5-point scale), pay outcome transparency (5-point scale), and pay communication transparency (6-point scale) to a 3-point scale. In the following table, the assignment from the original categorization to the new categorization is displayed.

Aspect of pay transparency	Original categorization	Assignment from original to new categorization	New categorization
Pay process transparency	(1) No transparency at all (2) Low transparency (3) Medium transparency (4) Transparent (5) Very transparent	(1) (2) → (1) (3) → (2) (4) (5) → (3)	(1) Low transparency (2) Medium transparency (3) High transparency
Pay outcome transparency	(1) No or minimal information (2) Aggregated information for reference group (3) Aggregated information for all employees (4) Exact individual information for reference group (5) Exact individual information for all employees	(1) → (1) (2) (3) → (2) (4) (5) → (3)	(1) No or minimal information (2) Aggregate information (3) Exact individual information
Pay communication transparency	(1) Formal obligation with punishment (2) Formal obligation (3) Formal discouragement (4) Informal discouragement (several times) (5) Informal discouragement (at beginning) (6) No restriction	(1) (2) (3) → (1) (4) (5) → (2) (6) → (3)	(1) Formal restriction (2) Informal restriction (3) No restriction

Imprint

Publisher Center for Human Resource Management (CEHRM)
University of Lucerne
Frohburgstrasse
P.O. Box 4466
6002 Lucerne
Switzerland

Authors Alexandra Arnold
Ingrid S. Fulmer
Anna Sender
David G. Allen
Bruno Staffelbach

Front Image iStock

Layout/Grafphics Daniel Jurt