

The effect of pay transparency in job postings on the application pool

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Purpose/Motivation: A growing number of employers are striving to achieve gender diversity, aiming for equal representation of men and women at all levels within their workforce. The reason for that is the fact that gender diversity is not only a social issue, but organizations can also use a well-managed diverse workforce as a competitive advantage increasing innovation, performance, revenue or even market share. However, a best practice to effectively promote gender diversity within the workforce remains unclear. This paper proposes pay transparency in job postings as one solution to integrate gender diversity already within the applicant pool and thereby reduce gender segregation on the labour market, increasing companies' outcomes and performance.

But only little is known about the way an applicant pool can be effectively influenced and on what grounds application decisions are made. Especially little attention has been paid to the effects of advertisements, such as job postings. The aim of this paper is to add to the current research on recruitment techniques that increase gender diversity within the applicant pool and reduce gender segregation in the labour market. The focus lays on the effect of pay information disclosure (PID) in job postings particularly on female applicants.

Theories: The underlying proposition in this paper is the interrelation between PID, perceived fairness and ambiguity aversion of female applicants. It is expected that especially women are affected by the transparent communication of additional job characteristics, like pay, prior to the actual hiring process, due to various forms of gender discrimination that women have faced and continue to face in the labour market.

Based on this idea it is proposed that the use of PID in job postings leads to a different application behaviour of women compared to men, influencing not only the gender composition of the applicant pool but also the gender segregation on the labour market in a positive way. There are several reasons for the effect of pay transparency on female applicants' behaviour. Probably the most fundamental cause is the reduction in the unequal distribution of information when it comes to salary. Against the background of the *Signaling Theory* (Spence, 1973) the reduction of information asymmetry can then further be viewed as a signal of fairness used by the employer to increase female applicants' attraction. At the same time, transparency decreases the uncertainty within the application situation which applicants are facing. In consequence, Ellsberg's *Decision Theory* (1961) is applied to explain factors influencing female application decision making.

Approach/Methodology: As only little is known about the way an applicant pool is influenced by recruiting techniques and on what grounds application decisions are made this paper is based on literature research in the field of recruiting, application behaviour and gender diversity. To fully grasp the way PID influences the applicants' decision the focus lays on papers regarding the *Signaling Theory* (Spence, 1973) and *Descision Theory* (Ellsberg, 1961) to create propositions on the effect of pay information disclosure especially on female applicants.

Based on a review of over 50 job postings in the US-State of California for the position of an HR-Manager different forms of PID were identified (small and wide pay ranges as well as pay ranges of zero) and were further described as PID characteristics. For each of those three characteristics the effect on women was estimated not only based on the theoretical background but also psychological and sociological aspects derived from several studies in those fields.

Findings: The findings of this paper confirm that salary transparency in job postings impacts the application behaviour of women and therefore influence the degree of gender diversity within the applicant pool. This effect stems from their perceptions of equity and fairness related to the employer's brand image and the level of uncertainty in negotiations. But it needs to be noted that different degrees of PID affect female applicants' attraction to a company to varying extents. In general, the higher the PID, the more women are attracted by a company's job posting and the more gender diversity within the applicant pool increases.

Research Limitations and Implications: Although this paper provides first insights on the way different degrees of pay transparency in job postings affect women's application behaviour on a psychological level, it is limited to conclusions on a general level. Therefore, future research needs to take a more detailed approach regarding the PID characteristics, the effect of women's decision-making and opportunities on the premarket as well as individual and cultural factors influencing female application decision. As this paper primarily provides theoretical arguments, it is important to strengthen these points with empirical evidence. Greater results are expected by an empirical study of the effect of PID in job postings within a limited test-group.

Practical Implications: Gender diversity offers significant advantages for businesses. The importance of gender diversity extends beyond the applicant pool, as it has a significant impact on the overall performance of an organisation's workforce, its teams, and individual employees. This paper not only proves that the disclosure of pay information in job postings positively influences the gender diversity within the applicant pool but also provides insights into varying effects of different degrees of salary transparency in job postings on (especially) women's application behaviour. The paper underlines that it is worth to invest in a costly signal, such as PID, to increase gender diversity first in their applicant pool and later on in the workforce, as pay transparency in job postings has a beneficial effect not only

for companies but society itself by increasing organizations' gender diversity and thereby decreasing the gender pay gap.

Contribution: The research on pay information disclosure in job postings underscores the importance of signalling equality and reducing information asymmetry on the applicant's side to enhance gender diversity within the applicant pool. Additionally, PID in job postings plays a crucial role in addressing and reducing pay discrimination and implicit biases, fostering a fairer and more inclusive hiring process. Ultimately, the communication of pay information within job postings contributes to creating a more equitable and inclusive workplace overall. This leads to positive outcomes for companies regarding innovation, revenue, and overall business performance. At the same time, this topic addresses current challenges on the labour market. Thus, pay information disclosure holds significant importance not just for the economy but for society at large.

Paper type: conceptual

Further readings:

- Brown, M., Nyberg, A. J., Weller, I., & Striver, S. D. (2022). Pay information disclosure: Review and recommendations for research spanning the pay secrecy–pay transparency continuum. *Journal of Management*, 48(6), 1–34. <https://doi.org/10.1177/01492063221079249>
- Chen, C. X., Fung, V. & LaViers, L. (2023). Labor Market Participants' Reactions to Salary Range Disclosure. Working Paper. <https://dx.doi.org/10.2139/ssrn.4599573>
- Kuhn, K. M. (2024). Ambiguity in advertised compensation: Recruiting implications of nominal compliance with pay transparency legislation. *Journal of Applied Psychology*, 109(4), 599–609. <https://doi.org/10.1037/apl0001165>
- Ryan, A. M., Horvath, M., & Kriska, S. D. (2005). The role of recruiting source informativeness and organizational perceptions in decision to apply. *International Journal of Selection and Assessment*, 13(4), 235–249. <https://doi.org/10.1111/j.1468-2389.2005.00321.x>