

The Interaction Effects of Pay Transparency and HR Process Transparency on Employee Job Satisfaction

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Master of Science

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Purpose/Motivation: Pay transparency received great scholarly attention in recent years. Research findings indicate that the impact on employee outcomes, such as job satisfaction, is double-edged and contingent on contextual factors. For once, pay transparency has the potential to enhance fairness and organizational trustworthiness (Bennedsen et al., 2022; Bamberger & Belogolovsky, 2010). Conversely, poorly managed transparency can result in conflict, envy, and privacy concerns (Bamberger & Belogolovsky, 2017; Smit & Montag-Smit, 2018). Interestingly, pay transparency as an HR practice is predominantly analyzed in isolation, and, in accordance with HRM system theory, other HR practices may serve as significant context factors (Brown et al., 2022; Delery & Shaw, 2001). The present study proposes HR process transparency, defined as the transparency regarding different talent management processes, as a core context condition and an additional determinant of positive employee outcomes associated with transparency. Consequently, both transparency constructs should elicit positive individual effects, as well as a positive interactive (i.e., cross-moderation) effect on employee job satisfaction. This thesis delivers new insights regarding the potential benefits and caveats of employing (pay) transparency in human resource management.

Theories/Hypotheses: The hypotheses are developed on the foundations of the HR transparency literature (e.g., Alterman et al., 2021) and the HRM system literature (e.g., Boon et al., 2019; Delery & Shaw, 2001). This combined theory building is bridged by arguments grounded in signaling theory (Bowen & Ostroff, 2004). I argue that pay transparency and process transparency should have synergistic and complementary potential in the signals that each construct sends to employees (Boon et al., 2019). Employees, on the other hand, are expected to perceive a higher transparency as a signal of organizational fairness (justice) and organizational trustworthiness, which in turn increases job satisfaction (Alterman et al., 2021; Schnauffer et al., 2022). Taken together as an HR system for transparency, even stronger effects are expected due to an increased coherence and a reduced uncertainty in signal content and strength (Alterman et al., 2021; Bowen & Ostroff, 2004). I propose:

Hypothesis 1 (H1): A higher level of pay transparency is positively associated with a higher employee job satisfaction.

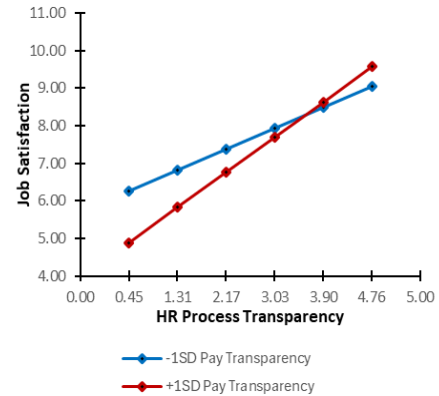
Hypothesis 2 (H2): A higher level of HR process transparency is positively associated with a higher employee job satisfaction.

Hypothesis 3 (H3): The combined (interactive) effect of pay transparency and HR process transparency is positively associated with employee job satisfaction in the sense that pay transparency moderates the effect of HR process transparency, and HR process transparency moderates the effect of pay transparency on employee job satisfaction.

Approach/Methodology: I analyze a unique cross-sectional employee sample of 617 employees collected over five points in time in Germany (Göbel et al. 2024) with OLS regression analysis. The results are substantiated by robustness and supplemental analysis, including, for example, mediation testing. Pay transparency is measured through a multidimensional construct that assesses employee communication about pay and the organization's disclosure of pay information. Process transparency is a reflective index related to four different talent management processes. Job satisfaction is assessed with a single item on an 11-point Likert scale.

Findings: The results reveal distinct effects of pay transparency and HR process transparency on job satisfaction. Contrary to expectations, the idiosyncratic pay transparency effect on job satisfaction is not significant (H1 rejected), while process transparency has a positive and significant effect on job satisfaction (H2 supported). Furthermore, the interaction term between pay and process transparency is positive, suggesting a synergistic (i.e., multiplicative) effect on job satisfaction (H3 supported, see figure). Notably, the effect of pay transparency only becomes significant when HR process transparency is high, whereas HR process transparency consistently affects job satisfaction regardless of the level of pay transparency. In supplementary analyses, I find the same pattern for alternative outcomes such as turnover intention and procedural justice. Mediation analyses further suggest that organizational justice and pay satisfaction partially mediate the relationship between HR process transparency and job satisfaction.

Research Limitations: It is not possible to make causal claims with a cross-sectional dataset. Robustness analysis shows that selection into the sample is an issue, as non-respondents differ on average from respondents concerning core variables like job satisfaction. This limits the



validity of the results. Lastly, due to the level of analysis being limited to the employee level, implications or recommendations for a transparent HR system cannot be deduced.

Research Implications: This article provides a better understanding of the nuances of the benefits and shortcomings of transparency. First, empirical findings attribute a higher importance to HR process transparency over pay transparency, not only for individual effects but also visible in the interaction effect. This is unexpected considering the attention on pay transparency and may call for a need to consider additional HR practices' transparency. Second, the significant interaction effect between process transparency and pay transparency applies, seemingly successfully, the HRM system idea to transparency. That transparency as a process may be interactive in its outcome effects is a new insight for organizational transparency literature.

Practical Implications: For organizations, the findings emphasize the importance of adopting a holistic approach to HR transparency. Simply focusing on pay transparency may not suffice to improve employee satisfaction. Employees seemingly do not view HR activities in isolation and draw on several justice related signals from different HR activities to inform their attitudes. Organizations should consider transparency across various HR activities, like pay practices and talent management, to create a more coherent and fair working environment that elicits positive employee outcomes.

Contribution: This study contributes to the ongoing debate over the benefits and drawbacks of pay transparency in organizations. The findings suggest that pay transparency effects are only positive when aligned with transparency in other HR activities, like talent management. The approach of studying transparency with interactive effects as a system that requires coherence across various HR practices opens new avenues for research and practice.

Paper type: empirical

Further readings:

- Alterman, V., Bamberger, P. A., Wang, M., Koopmann, J., Belogolovsky, E., & Shi, J. (2021). Best Not to Know: Pay Secrecy, Employee Voluntary Turnover, and the Conditioning Effect of Distributive Justice. *Academy of Management Journal*, 64(2), 482–508.
- Boon, C., Den Hartog, D. N., & Lepak, D. P. (2019). A Systematic Review of Human Resource Management Systems and Their Measurement. *Journal of Management*, 45(6), 2498–2537.
- Brown, M., Nyberg, A. J., Weller, I., & Strizver, S. D. (2022). Pay Information Disclosure: Review and Recommendations for Research Spanning the Pay Secrecy–Pay Transparency Continuum. *Journal of Management*, 48(6), 1661–1694.
- Delery, J. E., & Shaw, J. D. (2001). The Strategic Management of People in Work Organizations: Review, Synthesis, and Extension. In *Research in Personnel and Human Resources Management* (Vol. 20, pp. 165–197). Emerald.