The Double-Edged Sword of Openness: The Moderating Role of Pay Transparency on Job Satisfaction Among Status Groups in Exclusive Talent Management

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Purpose/Motivation: Governments increasingly require organizations to disclose pay information: the EU Pay Transparency Directive (2023/970), to be transposed into national law by June 7, 2026, obliges employers to disclose pay criteria and salary ranges, and more than 30 countries have implemented some form of pay transparency mandate (Cullen, 2024). At the same time, exclusive talent management (TM), which concentrates disproportionate resources on a small group of employees identified as high-potential, has become the dominant TM approach in practice (Gallardo-Gallardo et al., 2013; Gelens et al., 2013). The disparities that exclusive TM creates by design are often not fully visible under the prevailing pay secrecy (Belogolovsky & Bamberger, 2014; Brown et al., 2022); pay transparency now exposes them. Yet TM research has mainly examined the strategic rationale of workforce differentiation, while pay transparency research has studied undifferentiated settings. This thesis therefore asks: What is the effect of different talent status groups on job satisfaction in exclusive TM systems, and to what extent does pay transparency moderate this relationship?

Theories/Propositions: Human capital theory (Becker, 1964; Lepak & Snell, 1999) provides the economic rationale for exclusive TM: organizations invest disproportionately in the firm-specific human capital of their most valuable employees and thereby segment the workforce into talents and non-talents. Equity theory (Adams, 1965) and social comparison theory (Festinger, 1954) explain how employees evaluate these disparities by comparing their input-to-outcome ratio with that of similar others. Talents experience a favorable ratio, organizational recognition, and distributive justice (Björkman et al., 2013; Gelens et al., 2013), whereas non-talents who become aware of their differential treatment experience underpayment inequity and perceived injustice, both strongly related to job satisfaction (Colquitt et al., 2001):

Proposition 1: Talents show higher job satisfaction compared to non-talents.

Under pay secrecy, non-talents lack comparative information and, in line with the overconfidence literature, tend to overestimate their relative standing (Larrick et al., 2007; Moore & Healy, 2008). Pay transparency replaces these estimates with observable data. For non-talents, the revealed gap is experienced as a loss of relative standing, which weighs

disproportionately due to loss aversion (Kahneman & Tversky, 1979; Tversky & Kahneman, 1991). For talents, it largely confirms the status signals they have already received:

> *Proposition 2:* Pay transparency has a moderating effect on job satisfaction, such that for talents the effect is positive but comparatively weaker in magnitude than for non-talents, while for non-talents the effect is negative and comparatively stronger in magnitude than for talents.

Approach/Methodology: The thesis is conceptual and does not collect empirical data. After clarifying the three constructs of the research model (exclusive TM as the independent variable, overall job satisfaction as the dependent variable, and pay transparency, comprising outcome and process transparency, as the moderator), I developed a theoretical framework based on human capital theory and an integrated equity and social comparison perspective, complemented by prospect theory and overconfidence research. From this framework, I derived two propositions and related them to existing empirical evidence.

Findings: Exclusive TM produces divergent job satisfaction outcomes for talents and non-talents, and pay transparency moderates this relationship asymmetrically (see figure below). For non-talents, three mechanisms converge: pay transparency corrects inflated self-assessments, loss aversion amplifies the perceived loss of relative standing, and equity evaluations become grounded in objective information. For talents, pay transparency merely confirms known signals and yields only a modest positive effect, consistent with Card et al. (2012), where peer salary disclosure reduced job satisfaction only among below-median earners. Pay transparency thus turns latent perceptions of disadvantage into concrete experiences of inequity and cannot be treated as a neutral policy instrument.

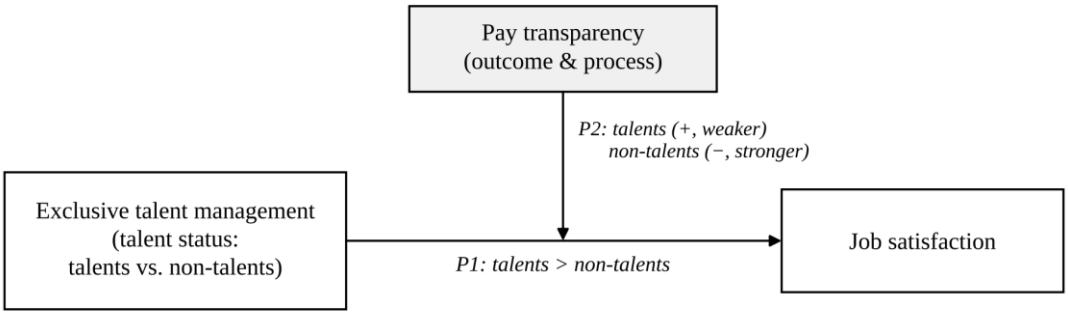


Figure 1: Research model

Research Limitations: The propositions remain empirically untested. The thesis relies on a binary distinction between talents and non-talents, although organizations often use multiple talent categories. Moreover, the argumentation contrasts pay secrecy with pay transparency rather than intermediate degrees and focuses on horizontal transparency. Potential negative

effects for talents (e.g., overpayment inequity), individual differences in equity sensitivity and comparison orientation, and cultural context are not considered.

Research Implications: The effects of pay transparency depend at least partly on the underlying HR architecture, so universal predictions about pay disclosure may fall short. TM research should integrate employee-level mechanisms such as equity, social comparison, and justice perceptions (Björkman et al., 2013; Gelens et al., 2013). Future studies should test both propositions, ideally in field experiments or longitudinal designs, and examine these boundary conditions.

Practical Implications: Organizations with exclusive TM systems should not regard pay transparency as universally beneficial: since non-talents form the majority of the workforce, their loss in job satisfaction is likely to outweigh the gains of talents and may reduce motivation and commitment. Decision-makers should assess existing pay disparities in advance, consider a graduated approach (e.g., disclosing pay ranges before individual salaries), and introduce process before outcome pay transparency by clearly communicating the criteria for talent identification and pay decisions.

Contribution: The thesis connects the so far largely separate literatures on exclusive TM and pay transparency. It shifts the focus from the organizational rationale of workforce differentiation to its psychological consequences for employees and combines theoretical mechanisms, including prospect theory and overconfidence research, to explain the asymmetric effects of pay transparency.

Paper type: conceptual

Further readings:

Björkman, I., Ehrnrooth, M., Mäkelä, K., Smale, A., & Sumelius, J. (2013). Talent or not? Employee reactions to talent identification. *Human Resource Management*, *52*(2), 195–214. https://doi.org/10.1002/hrm.21525

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. https://doi.org/10.1177/01492063221079249

Card, D., Mas, A., Moretti, E., & Saez, E. (2012). Inequality at work: The effect of peer salaries on job satisfaction. *American Economic Review*, *102*(6), 2981–3003. https://doi.org/10.1257/aer.102.6.2981