

TRANSPARENCY VS HONESTY: A WORKPLACE TRADE OFF

Transparency in a company's working environment is often seen as ideal. However, this might not be always the case.

A study supported by the CPA Ontario Centre for Capital Markets and Behavioural Decision Making at Wilfrid Laurier University found evidence of the contrary.

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Title: "Vertical pay dispersion, peer observability, and misreporting in a participative budgeting setting"

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CONTEXT AND PROBLEM

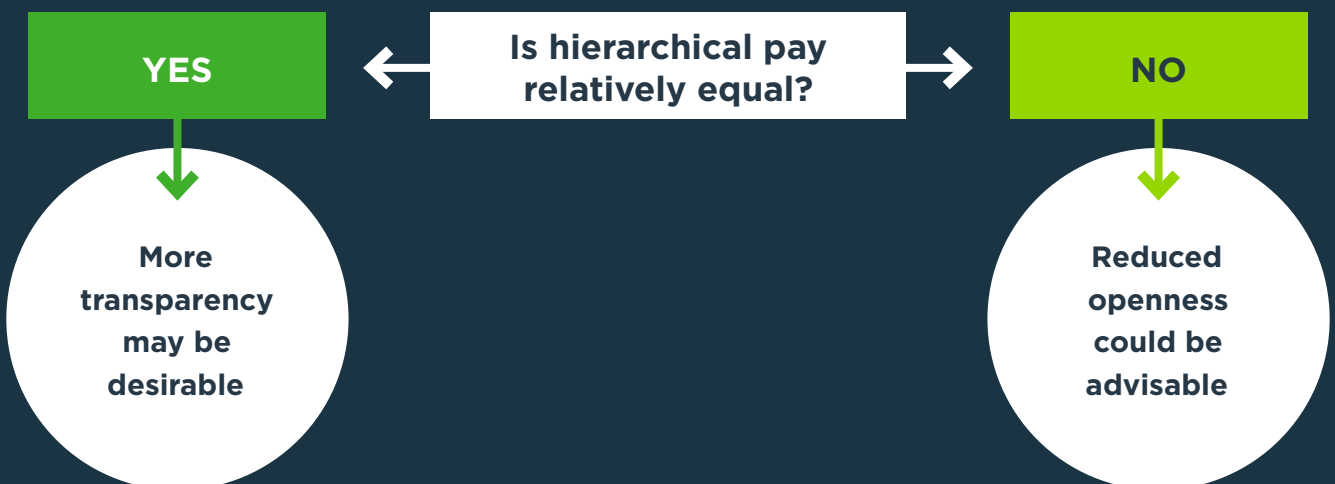
Many firms have adopted open-plan office designs to encourage collaboration. Intuitively, one would expect that few internal walls and minimal partitioning between work stations would increase transparency and honesty.

Researchers observed that **implementing transparency policies regarding pay levels between employees and their supervisors can be counterproductive**. When the pay gap is significant at different levels of an organization, subordinates will try make performance targets easier to hit, thus reducing the competitiveness and profit of the organization.

The same goes for information policies that promote open communication within organizations and transparent sharing of information with employees.



HOW CAN ORGANIZATIONS ADJUST THEIR LEVEL OF OPENNESS?



"When a firm has a more egalitarian pay structure between employees and supervisors... an open information policy is conducive to a more honest reporting environment."

"Under a more hierarchical pay structure...open information policies can compromise the honesty of subordinates' reports."

KEY TAKEAWAYS



When pay is relatively unequal throughout an organization's hierarchy, subordinates seeing their pay as unfair may redress unfairness by creating budgetary slack

This involves exaggerating costs or underestimating expected revenue to make it easier for personnel to reach targets and earn incentives. This hurts businesses' competitiveness and profitability.



Letting subordinates observe their peers' behaviour will strengthen prevailing norms of relative honesty or dishonesty

When pay is unequal and subordinates create budgetary slack to compensate, seeing their peers do the same will strengthen the dishonest behaviour. When pay is more equal, seeing peers' estimating honestly encourages the same.



If organizations adopt an open working environment, it may be prudent to reduce the pay differentials between organizational hierarchies.

Conversely, in an independent working culture, increasing pay differentials between organizational hierarchies will not motivate slack-building.