

# Why An Open Salary Policy Always Beats Secrecy

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**Editor's note:** *Dane Atkinson is the CEO of SumAll.*

For four years, journalists and entrepreneurs have asked me *why* we created an open salary policy at my company. Here's the answer: *it prevents evil*. Open salary policies mandate truthfulness and ethical behavior in organizations that would otherwise abuse the secrecy. "Transparency" is just a hollow buzzword unless executives are candid about compensation.

I would argue that in any company, salary transparency leads to better culture, higher retention and a more effective business than secrecy - with one caveat. If your company abuses rank-and-file employees to pay monstrous executive salaries that have nothing to do with their performance, then yes, open salaries will backfire. If most employees would be disgusted at the salary structure, you have bigger problems than transparency anyway.

When everyone at a company knows what co-workers make, this knowledge banishes the inequities and lies that otherwise fuel resentment and high turnover. Open salary culture will always beat out a culture of secrecy by creating a marketplace in which meritocracy, trust and equality thrive.

## **The free marketplace**

At a typical company, your salary is just a reflection of your negotiating skills. In a transparent company, your compensation is determined by market dynamics.

In companies I ran before SumAll, here's how compensation worked. An engineering candidate comes in, interviews, does great and we try to hire her. I ask, "What starting salary seems fair to you?" And regardless of the number she gives, I try to negotiate downward. That's the convention in this circumstance. As a result, that engineer's salary is likely different from her market value, depending on how well she negotiated.

Open salaries put an end to this distortion. You can't compensate new hires below their peers unless you have a really good reason. At my company, when departments discuss compensation for new hires, people speak up if they feel like the offer is too low. After all, if we low ball an employee, he or she will find out during her first week on the job. Just like in an open stock market, we can't pay backroom prices.

## **Markets fuel meritocracy**

Normally, salary changes are determined by time, not value. Live and breathe through enough performance reviews, and pay goes up. By establishing a marketplace, open salary policies establish meritocracy.

Let's say a marketer is making \$10,000 less than his peers - he finds out over drinks at the bar. Normally, he can't speak up because it's supposed to be a secret. So instead, he gets "sick" more often, or asks about his next performance review a little too often. It's negotiation via innuendo, which is a huge source of distress and frustration for this guy.

When salaries are open, this charade stops. Regularly, employees ask, "Why am I getting paid less?" Sometimes, that simple question is the trigger for a pay raise. We review what they've done over the past months, and realize that they are delivering more value than before. Other times, I point out why a pay raise isn't in order.

That feedback, good or bad, guides people along their career paths. The marketer might discover that his peers make more money because they take leadership roles in company blogging, charitable initiatives and other tasks that went beyond standard expectations. Whatever the case, employees learn exactly what they can do to increase their value to the company. There's no innuendo, no B.S. and none of the kissing up you'd observe in an environment of secrecy.

In a similar vein, transparent salaries are the most effective way to end pay discrimination. Women continue to make 78 cents to every dollar men make - but good luck trying to pull that crap in a company with open salaries. Armed with indisputable proof of a wage gap, people will speak up. Discrimination on gender, race and religion - whether it's conscious or subconscious - will stop.

## **Retention and trust**

With a transparent and meritocratic compensation policy, you will keep more employees. Inevitably, people in secret environments find out what their co-workers make, and that moment is often their cue to start job hunting. With open salaries, discrepancies become motivation to step up your game. Perhaps this is why our churn rate at SumAll is less than 10 percent. When the total cost of replacing a \$60,000 per year employee can be \$150,000 or more, a low churn rate becomes a competitive advantage.

Our high retention also reflects a degree of trust and respect we've achieved through open salaries. In companies without transparency, people assume that their time is more valuable than everyone else's. So, they dump work on each other. You learn to save yourself two hours of work even if dumping it on a peer will saddle him with 10 hours of work. With salary transparency, this stops. People understand the financial toll they take on the company when they create an extra 10 unnecessary work hours. Open salaries promote a high output team in which co-workers respect each other's time.

## What lurks in the shadows

We're not the only company to practice open salaries. Buffer, most famously, makes salaries open to employees *and* the public. I draw a line there. Maybe an employee doesn't want his girlfriend to know how much he makes. I consider that his choice, not mine.

If you intend to be evil, open salaries and transparency are not for you. If you hide salary information from employees, you will live in terror (one reason CFOs are exceptionally well-paid). Eventually, compensation secrets always leak and employees leave the company without discussion. People get too distressed and offended to talk about secrets they shouldn't know.

Shadows are home to inequality, fear and resentment. In business, some of the most basic moral principles are violated under the banner of discretion, privacy and efficiency. You can build your culture of transparency on a foundation of white lies, and watch it crumble beneath your employees. Or you can let all the data flow. What are you hiding?

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