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How Much Does Your Boss Make? The Effects of Salary Comparisons

Abstract:

We study how employees learn about the salaries of their peers and managers and how their beliefs about those salaries affect their own behavior. We conducted a field experiment with a sample of 2,060 employees from a multi-billion dollar corporation. We combine rich data from surveys and administrative records with data from the experiment, which provided some employees with accurate information about the salaries of others. First, we document large misperceptions about salaries and identify some of their sources. Second, we find that perceived peer and manager salaries have a significant causal effect on employee behavior. These effects are different for horizontal and vertical comparisons. While higher perceived peer salary decreases effort, output, and retention, higher perceived manager salary has a positive effect on those same outcomes. We provide suggestive evidence for the underlying mechanisms. We conclude by discussing implications for pay inequality and pay transparency.

(joint with Zoe Cullen)