

4.2: Wages

Learning Objectives

1. Explore the limits of wage confidentiality.
2. Delineate the uses and ethics of wages as a work incentive.

Two Salary Issues Facing Managers

Two salary issues facing managers are wage confidentiality and the use of wages as a work incentive. Starting with **wage confidentiality**, in the private sector it's frequently difficult to discover what an organization's workers are paid. Because of freedom of information laws, many salaries in government operations and contracting are available for public viewing, but in the private sector, there are no laws requiring disclosure except in very specific circumstances.

The main ethical reason for keeping wage information concealed is the right to privacy: agreements struck between specific workers and their company are personal matters and will likely stay that way. Still, ethical arguments can be mounted in favor of general disclosure. One reason is to defend against managerial abuse. In a law firm, two paralegals may have similar experience, responsibilities, and abilities. But Jane is single and living in a downtown apartment while John has just purchased a home where his wife is living and caring for their newborn. Any boss worth his salt is going to see that Jane's got no local commitments and, who knows, she may just up and decide to spend a few months traveling, and then make a run at living in some different city. Maybe she likes skiing and a few years in Denver doesn't sound bad. John, on the other hand, is tied down; he can't just walk away from his job. He can always get a new one, of course, but if money's tight and a recession is on, there's an incentive to raise Jane's salary to keep her and not worry so much about John who probably won't be going anywhere anyway. That seems to be taking unfair advantage of John's personal situation, and it also seems like paying someone for something beyond the quality of the work they actually do. But if no one knows what anyone else is making, the boss may well get away with it.

Stronger, the boss may actually have an *obligation* to try to get away with it given his responsibility to help the company maximize its success.

Another argument against confidentiality is the general stand in favor of transparency, and in this case, it's transparency as a way of guaranteeing that ethical standards of equality are being met. Since the signing of the Equal Pay Act in 1963, the ideal of "equal pay for equal work" has become a central business ethics imperative in the United States. But it's hard to know whether the equality is really happening when no one knows how much anyone else is making.

Of course, workers *do* frequently know how much other people are getting. In an extreme case, if you're laboring in a union shop, it's probable that your wage scale will be set identically to those of your companions. Even if you're not unionized, though, people still talk at the water cooler. The result is, in practice, that some wage transparency is achieved in most places. From there, arguments can be mounted for the expansion of that transparency, but in most cases, the weight of privacy concerns will carry the day.

Another wage issue concerns its use to provide a **work incentive**. Many sales positions have the incentive explicitly built in as the employees receive a percentage of the revenue they generate. (That's why salespeople at some department stores stick so close after helping you choose a pair of pants; they want to be sure *they* get credit for the sale at checkout.) In other jobs, generating a motivation to work well isn't tremendously important. The late-night checkout guy at 7-Eleven isn't going to get you out of the store with cigarettes and a liter of Coke any faster just because his salary has been hiked a dollar an hour. Between the two extremes, however, there are significant questions.

Probably, the main issue involving the use of wages as a carrot in the workplace involves clarity. It's quite common, of course, for managers to promise an employee or a team of workers a pay hike if they win a certain account or meet productivity goals. Inevitably, the moment of the promise is warm and fuzzy—everyone's looking forward to getting something they want, and no one wants to sour things by overbearingly demanding specifics. The problems come afterward, though, if the terms of the agreement have been misunderstood and it begins to look like there's an attempt to worm out of a promised salary increase. It is management's responsibility as the proposers of the accord to be sure the terms are clearly stated and grasped all around:

- What, exactly, needs to be accomplished?
- How much, exactly, is the wage hike?

The mirror image of promised wage hikes to encourage improved worker performance is the **bonus** paid at year's end to employees marking a job well done. In a letter to the editor of the *Greensboro News-Record* in North Carolina, a teacher cuts to the central ethical problem of the bonus: on the basis of what do some employees receive one while others don't? Some teachers, the writer states, "at schools with high 'at-risk' populations and students coming from homes where education is just not valued, work themselves into a tizzy every year, but because of the clientele they serve, will never see that bonus money. Inversely, schools with middle-class clienteles have teachers who work hard, but also others who merely go through the motions but usually can count on that bonus because their students come from homes that think education matters. Where is the justice in this?" Bill Toth, "Entire State ABC Bonus System Unfair," *News-Record.com*, Letters to the Editor, August 19, 2008, accessed May 24, 2011, blog.news-record.com/opinion/letters/archives/2008/08/.

It's not clear where the justice is, but there's no doubt that bonuses aren't serving their purpose. The problem here isn't a lack of clarity. No one disputes that the rules for assigning a bonus are clear. The problem is that the rules don't seem to account for divergent working conditions and challenges.

The important point, finally, is that even though a bonus is extra money outside the basic salary structure, that doesn't mean it escapes the question, "Where's the justice in this?," coming with every decision about who gets how much.

Key Takeaways

- Wage confidentiality pits the right to privacy against the desire for, and benefits of, transparency.
- Wages and bonuses are used to provide a work incentive, but problems arise when the pay increments don't obviously align well with promises or with job performance.

Exercise 4.2.1

1. Why might a company want to maintain wage confidentiality?
2. What is an example of a payment bonus becoming disconnected from work performance?

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