

SUPPORT: HB0123

February 2, 2020

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Dear Chairman Davis and Members of the House Economic Matters Committee,

I am writing to urge you to support HB 0123 “Labor and Employment – Wage History and Wage Range”.

I have worked in small, growing Maryland-based businesses for the last 30 years, working my way up from an entry level position, to supervisory and management positions, and eventually business owner and company President.

I am intimately familiar with the Maryland business environment with regards to small business and the impact of regulations: **never in the last three decades have I seen a proposed regulation that would be easier and less costly to comply with.**

Having grown a company from a handful of employees to a staff of 100, I have directly participated in hundreds of recruitments and seen the results of those decisions play-out.

Deciding to hire staff is a significant investment for any business: you may think that having an applicant’s previous salary history helps companies determine a “reasonable” salary range for a position: that is not the case in practice.

Even in the most informal settings, **businesses use a combination of personal experience, trusted peers, salary surveys (freely available online) and – most importantly – their own budgets to internally set a salary range before a position is ever advertised.**

A single applicant’s previous salary at a few, random companies has little to do with how the local market might currently value a set of skills, let alone what a company can and expects to pay to obtain them.

Requesting previous salary information serves only one purpose – to set a framework for salary negotiations.

For many years the hiring practices at companies I worked with were all very similar, requiring applicants provide their salary history. When selecting among applicants with similar skills and qualifications, applicants with lower previous salaries were viewed as potential “bargains” that could be recruited under the going market rate.

Over time I noticed several negative side effects from this approach:

1. Employees that had been “negotiated-downward” started work with a less positive outlook than the peers.
2. Retention rates and organizational loyalty were lower.

3. The disparities in salaries created an imbalance in the salary structure among similar positions. This negatively effected both the applicant recruited at a lower starting salary, as well as with peers and team members.
4. It was very difficult for employees recruited this way to ever “dig out” of the financial disparity, and it effected the rate that employees contributed to their 401K accounts.

So, we developed a different approach to salary negotiation:

- We eliminated the requirement for applicants to share salary history during the application process.
- We stopped trying to minimize starting salaries.
- Instead, we adopted a “round-up” method where we would offer applicants starting salaries that reflected the value of the work to be performed, *even in cases where applicants voluntarily requested lower starting salaries.*

As a small business without a formal HR department, it was very easy to adopt this change – there are already prohibitions about asking certain questions of candidates, salary history was just an addition to that list.

We quickly noticed benefits:

- New employees exhibited universal positive morale.
- Retention rates leveled out across employees.
- Loyalty and productivity increased.
- Goodwill increased as the positive experience was shared among the staff.

What we learned organically is also backed-up by the data: academic studies have shown that an initial “anchor” influences the outcome of a negotiation, even when that anchor is extreme.¹ (This is known as “anchoring bias.”)

Requiring an applicant to disclose salary history creates an initial “anchor” in the salary negotiation, disparately effecting applicants that may have a history of lower compensation. And among populations that might experience negative effects from other biases, the impact of the anchoring bias becomes compounded.

I respectfully request a favorable report on HB0123. It will remove a form of bias in the hiring process and would benefit both our workforce and economic productivity.



James R. Racheff

¹ Thorsteinson, T. J. (2011). Initiating salary discussions with an extreme request: Anchoring effects on initial salary offers. *Journal of Applied Social Psychology*, 41(7), 1774–1792. <https://doi.org/10.1111/j.1559-1816.2011.00779.x>