What to Say About Pay

By Dennis Ackley

No other employee communication sends a clearer message than the dollars and cents printed on each employee's paycheck. But isn't there a lot more that organizations want employees to know about their pay? For some organizations, employee pay is the largest business expense. Presumably these organizations—as well as others—have a clearly stated purpose for the pay program. But often they don't.

Explaining the Organization's Goal for Pay

For most organizations, the first challenge in communicating about pay is to answer the question, "What do we pay for?" It's a simple question, and the answer should be obvious. But other than "We pay for work," there doesn't appear to be a universal definition of the purpose of pay.

Maybe pay is one of the following:

- *A motivator.* But why do only a few employers tell employees the salary ranges for higher-level jobs?

- *A reward for performance.* But why don't all organizations communicate pay changes *and* performance appraisal at the same time?

- *One of Professor Frederick Herzberg's "hygiene factors."* But if it doesn't make people happy, does it at least help prevent unhappiness?

- *A form of recognition.* But are such things as the "chairman's award," a reserved parking space, or a birthday bonus viewed by some employees as providing more lasting and valuable recognition than pay?

- *A way to keep score.* Can this be the only logical reason for some pay levels, particularly those of executives?

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Regardless of what pay is, the overall intent of the pay program should be to reward employees for helping the organization succeed. Yet, if management is not clear about what the organization should accomplish, the pay program cannot be designed to support the organization's mission and business goals properly.

On the other hand, if management says it wants to do specific things—but rewards employees for others—it gets what it pays for. Usually the intentions are good, but sometimes management ends up saying one thing and doing another. For instance, management might say and do the following:

- "We pay for performance"—but give a 3% across-the-board increase.

- "We are customer-driven"—but base pay solely on sales volume rather than customer satisfaction.

- "Quality is our top goal"—but base pay strictly on quantity of products made or hours worked.

Why the Obvious Won't Work

Perhaps all pay communication problems could be solved simply by publishing the pay levels of all employees. The top performers—those with the biggest paychecks—would become models for everyone else's performance. That's not a radical idea. Open pay systems can be found in union work environments, public/governmental organizations, senior management groups (pay and other types of compensation are published in proxy statements), and a few adventurous, highly democratic organizations.

Why hasn't every organization adopted this system? The biggest reason is that the inequities—real and perceived—would show. This is why some organizations use the "no communication" approach to pay. But even with "no communication," employees will either get information about pay or guess it. That's what makes the "no communication" approach the worst approach. If confronted, managers must either defend a system they probably don't understand or lie.

The truth is, as long as human beings are making judgments about how well other people are doing a job and how important the job is, there isn't going to be a perfect pay program. Yet, no organization should have qualms about communicating a pay program that is well thought out and designed to reflect the organization's values.

Supervisors Are Key Communicators

Before creating the pay communication materials, an organization should consider which channels or communication will work best.

Because supervisors have the major responsibility to communicate the organization's satisfaction with employees' performance, supervisors should play a key role in pay communication. But this presents some challenges. Not all supervisors understand the pay program, and some may be dissatisfied with their own pay. Moreover, communicating about pay may be the most difficult part of a supervisor's job. It requires supervisors to place a dollars-and-cents value on employees. Judging people is counter to our society's values. But when people become supervisors, they are expected to make these judgments—often with little guidance. In addition, supervisors must balance management's instructions to use pay to reward performance with their desire to treat all employees fairly (that is, judge all employees on the basis of the same criteria). In light of these challenges, it's amazing that employees consider anyone to be a good supervisor.

To use supervisors as the main communication channel, companies must convince them that pay communication is a critical part of their job—and they must be rewarded for it. To help evaluate their performance in this responsibility, organizations may want to ask employees to assess how well their supervisors communicate about pay. But before measuring how well supervisors are communicating, the organization must provide supervisors with extensive training and communication tools (booklets, desktop flipcharts, etc.) to help them do their job effectively. Also, supervisors must learn how to provide good answers to such tough questions from employees as these:

* "Why is my pay increase only this much?"

* "What do I have to do to get more?"

* "Why don't I get as much as the people doing the same job at the XYZ Company?"

* "Why don't I get as much as the employees in other departments?"

* "Why don't we get automatic cost-of-living increases?"

* "Why don't we get higher salaries in light of the profits the company earns?"

* "Why doesn't length of service count; don't you care about loyalty?"

Developing a Successful Pay Communication Program

A good pay communication program must be solidly based on a clear statement of the organization's compensation philosophy. Both the statement and the communication program must support the organization's mission and have top management's blessing, the same essential steps as for other human resource activities.

Just as total quality management and customer-oriented programs emphasize the need to talk with customers, a fundamental element of every communication effort is to know the audience. Thus the employees—the customers—should be a prime consideration in any organization's pay communication program.

But before taking what might be seen as an obvious step—the virtually obligatory "customer satisfaction survey"—the organization should make sure it is prepared to deliver what the employees request. Otherwise, it shouldn't ask for their opinions. For instance, organizations shouldn't ask employees if they are satisfied with the pay program. Is anyone ever totally satisfied with pay? Even professional athletes with multimillion dollar contracts do not seem satisfied. That's because no pay program is designed for total satisfaction. Asking questions about satisfaction may leave the impression the organization intends to make employees happy about their pay. Rather than focusing on satisfaction, organizations should ask questions like these:

* Why do employees get rewarded—or why should they be rewarded?

* What factors lead to larger pay raises—or what factors should lead to larger pay increases?

* How does the pay program support the organization's mission—or how should it?

* How does the pay program stack up in the marketplace—or how should it?

Employees' answers to these questions may shock management. Remember, organizations usually get what they pay for. The level of detail organizations provide about pay programs ranges from zero to more than most people would want to know. With pay communication, more detail is not always better. It's important not to over-communicate the technical aspects employees don't control, such as the specific weighting or scale of compensable factors. This might result in employees asking, "How do I get more points or factors?"

Possibly the best way for organizations to get started is to give "light details" about the program. More details always can be added later. Employees' information needs—and the organization's objectives—may be met with brief explanations of these elements:

* How jobs are evaluated.

* How pay ranges for jobs are established.

* How individual pay is determined.

Pay Communication Tips

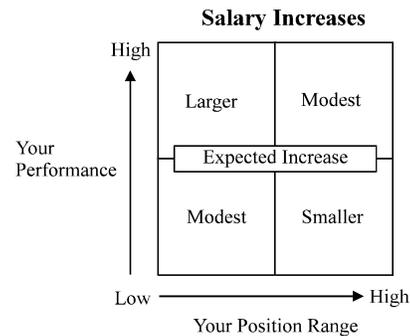1. Use "full job value" or "market point" to describe the middle of the range. Don't call it "midpoint"—this sounds like the competent employee has reached only the halfway point.

2. Use a diamond shape to describe the pay range. A box shape implies there is as much room at the top of the range as at "full job value."

Salary Ranges

Maximum Value

Full Job Value

Minimum Value
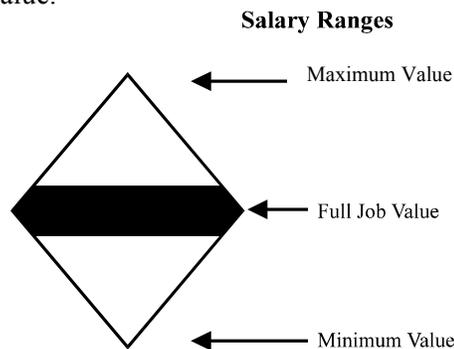
3. Put a statement of the measurable objectives and benchmarks for the overall organization, division, unit, team, or group on each employee's performance planning worksheet. How else will an employee know the right things to do?

4. Explain why employees who are high in a range often get a lower percentage merit increase than employees lower in the range.

Salary Increases

High

Larger | Modest

Your Performance — Expected Increase

Modest | Smaller

Low — High

Your Position Range

5. Don't say the organization has a "pay for performance" program unless it really does. If senior management believes it has a "pay for performance" program, ask your employees what they think.

6. Make sure each employee is aware of the following:

- The contents of the job description.
- The schedule for performance/merit review.
- The minimum, the full job value, and the maximum positions in the salary range.
- The range for the next job—and maybe for a couple of jobs up the promotion ladder.

A Message Employees Deserve to Hear

Many employees believe pay programs are designed to ensure they are paid as *little as possible.* That's why they assume bad news is on the way when they hear the company is reevaluating or adjusting its pay program.

This misconception could be remedied if employers conveyed simple message: IT IS A MISTAKE TO PAY EMPLOYEES TOO LITTLE—A MISTAKE THIS ORGANIZATION DOES NOT INTEND TO MAKE.

The "Right Amount" Concept

If keeping pay low isn't the purpose of the pay program, what is? Most employers can honestly tell employees that the pay program is designed to pay each of them "the right amount." Here's the message employees may want to read:

The XYZ Company understands that if you and all other employees are not paid the *right amount,* we cannot continue to be a successful company. Here's why:

- If pay is too low, we cannot keep good performers or attract highly qualified new employees.

- If pay is too high, we cannot keep our goods and services at competitive prices ... could lose business ... become a less financially solid company.

- So too low or too high would hurt the Company—that's why the XYZ Company developed its sophisticated pay program.

Isn't this the message employees should be getting about their pay?

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Conclusion

To reflect the organization's values and traits, the pay communication plan needs to be based on the organization's business mission, culture, and "the way things get done around here." At a minimum, the plan should outline these elements:

- What employees should know about the pay program.

- How the pay communication effort will support the organization's mission, human resource objectives, and desired culture.

- What key messages about pay the employees should receive.

- How the success of the pay communication campaign will be measured.

- Who should deliver the various messages.

- How the messages should be reinforced.

- When the messages should be sent.

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Dennis Ackley is a nationally recognized leader in benefit communication and retirement education. His innovative, award-winning communication programs have reached more than three million employees on topics such as retirement planning, health care, benefit choices, pay, and incentive plans. Dennis has created communication campaigns for hundreds of the country's largest employers. For more articles and information, visit ***www.DennisAckley.com****.*