



Communication Pays Off

By Lin Gensing-Popham

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(www.shrm.org/Publications/hrmagazine/PastIssues/2003/Pages/0503toc.aspx) *Employees who understand how they are paid are more motivated; however many employees aren't getting the message.*

Being open and honest with employees about company matters carries a lot of weight these days. Employees put stock in employers who are upfront with them, no matter what the news. But one area that employers historically have kept shrouded in secrecy is how they determine a position's salary and how they decide the amount of salary increases.



In fact, companies often go to great lengths to keep salary information under wraps, arguably because they're not entirely confident that their practices are either consistent or equitable. Or, they communicate it once at hire but don't make sure managers continue to give the message to employees throughout employment. The result is employees don't understand why they're paid what they're paid and whether it's competitive with the marketplace.

A 2002 *WorkUSA* survey conducted by Watson Wyatt indicates that the percentage of employees who say they understand how their pay is determined is at its lowest level in a decade—40 percent. The cost to employers? Employees who don't understand how they are paid are less satisfied with their jobs, other recent surveys have found.

Similarly, the 2002 *Knowledge of Pay* survey conducted by the LeBlanc Group, a subsidiary of The Segal Co. in New York, and sponsored by Scottsdale, Ariz.-based compensation association WorldatWork, found that only 41 percent of employees understand how their base pay increases are decided, and even fewer, 36 percent, understand how their base pay ranges are determined. And just 36 percent understand how their pay compares to the market.

HR professionals can improve retention and productivity simply by better and more frequently communicating to their workforce how their organization determines pay and salary increases and bonuses. Experts say to keep compensation simple and easy to understand, and to “market” the plan to employees.

Why It's Important

“Generally, people don't understand how they get paid and don't understand the connection between their pay and rewards,” says Frank Roche, a principal in the communication practice at Mercer in New York, where he leads the Performance Measurement and Communications Group.

According to a 2002 Mercer study on workers' attitudes about their jobs, little more than half understand how pay is determined, and only 28 percent said they were personally motivated by that knowledge because, the study concluded, workers don't clearly see how the quality of their work affects their pay.

The Mercer research shows some startling effects on job satisfaction when pay issues aren't clearly understood or clearly tied to performance. For example, of those employees who said they understand how pay is determined, 74 percent are satisfied with their jobs. Of those who do not understand how pay is determined, only 42 percent were satisfied with their jobs. And, of those who said they were paid "fairly," 85 percent were satisfied; of those who felt they were not paid fairly, only 47 percent said they were satisfied with their jobs.

The "really good companies," says Roche, are starting to pay more attention to these issues and are improving how they communicate messages related to pay and incentives. "There's not as much money to go around, equity is going away, merit increases are down and bonuses have, in some cases, gone away or have been fairly dramatically reduced."

Tom McCoy, managing member of T.J. McCoy & Associates LLC, a compensation and performance measurement consulting firm in Kansas City, Mo., is the author of *Compensation and Motivation* (AMACOM, 1992) and *Creating an Open-Book Organization* (AMACOM, 1996). He says there are some practical, business-related reasons that employers need to rethink the way they've traditionally addressed the issue of employee compensation.

"There isn't a company in the United States that can operate with hired hands anymore," says McCoy. "Employees have to think and act like partners in the business. When they do that, they've got the flexible, innovative, competitive edge required to succeed." Being more open with employees about how compensation is determined can make them feel more empowered.

Peter Vogt, a communications consultant with Watson Wyatt in San Francisco, agrees. "When we start looking at a more holistic viewpoint of helping employees see the big picture of the organization, helping employees see the full depth of their compensation package and helping employees become more financially and business savvy, you really do have the trifecta of helping employees be more engaged in the business."

Moving Beyond a Paycheck Mentality

Marcia MacLeod, vice president of rewards and policy at Williams, a Tulsa-based company that moves, manages and markets a variety of energy products, says the company has struggled through some "financial issues," as have other companies in the industry, and has had to make some adjustments.

One of the major changes has occurred in compensation administration. The new plan, MacLeod says, has a much stronger emphasis on pay for performance. "It's a massive cultural change."

The first step, says MacLeod, is building understanding. "Not acceptance, initially, but understanding. We're in the process of doing a good old-fashioned going around and talking face to face, first with our executive management, senior management, directors, managers and then down to supervisors. We're giving them tools to enable them to create the messages—not just sending out brochures, letters or e-mails."

Williams is also using the intranet to provide interactive formulas so employees can see how their incentive pay will work.

"We're providing training about the new financial metrics," says MacLeod. "We're sending out quarterly information on how the company is doing and how that relates to their pay."

MacLeod explains that this effort is an attempt to "demystify compensation. I think a lot of compensation professionals want to keep it like a black box. We've worked very closely with the HR generalists and management to explain [market] survey data to them, to demystify it, to be very open and to let them be a part of the process."

Ace Hardware also has experienced a change in its compensation philosophy. Laurie Nicolazzi, a senior compensation analyst with Ace Hardware Corporate Compensation in Oak Brook, Ill., says, "When I came on board, communication was limited in regard to salary information. In 1997, we said, 'We're opening that door.' We became much more forward with the information

that we gave our management and supervisory teams. We said, ‘if you’re a manager of this organization, then this [information] is something you need to do your job effectively.’” The managers can then accurately engage in dialogues with their employees about compensation and how their performance and the company’s performance affect it.

A ‘Marketing Approach’

“Opening the door” to fully disclose more details and information about compensation plans is a worthy goal, but it’s not always an easy process. Compensation plans and pay administration are complex. Quite often, the focus of compensation communication is on the technical details of the compensation plan and pay systems. This technical focus, says Marc Wallace, a consultant with the Hay Group in Chicago, is not necessarily the best approach to take.

“What’s going to make a difference is the amount of effort you put into implementing and communicating the plan,” says Wallace. “You can spend a lot of time behind closed doors figuring out the perfect plan, but, if the employees who are participating in that plan don’t understand it, then you’re not going to see any of your expected impacts.”

The companies that do well spend more time communicating the plan than worrying about the perfection of the design, says Wallace. They’re also comfortable with the notion that the plan is a work in progress that can—and should—be modified based on information gained through experience and feedback.

Brad Hill, a senior consultant with Hay Group, agrees. “Statements that I designed earlier in my career,” Hill admits, “dealt too much with the technical details from a compensation manager’s perspective and didn’t say enough about the individual’s contribution to the business.”

The key, says McCoy, is to work with employees to develop focus, understanding and eventually, commitment. To do this, some companies are taking a less technical, more marketing-based approach to compensation communication.

Joe Rich, co-president of Clark/Bardes Consulting, a compensation and benefits firm based in Marlboro, Mass., says HR and compensation professionals could be much more effective if they learned a few lessons from their marketing colleagues. Communicating issues of pay to employees, he says, is no different than selling any other service. “Marketing people realize that understanding what a customer wants and then presenting what they have to offer in [those] terms enhances the value. Compensation is no different.

“If you understand how people perceive pay as a ‘good,’ and how it helps them meet their personal and family needs,” says Rich, “you have a whole different way of thinking about what compensation communication is about.”

At American Express in New York, Bill Tompkins, vice president of compensation consulting, has quite literally used a marketing approach in his efforts to communicate compensation issues to employees. “Something near and dear to our hearts here at American Express, as a company that likes to communicate very strongly to its customers, is doing the same thing with our employees.

“I went to the vice presidents of marketing who were responsible for some of our more successful product launches, and I talked to them about compensation and how we market and communicate compensation within American Express, looking for any [knowledge] that we could take away from their experiences.”

The importance of simple, straightforward communication was one key point that Tompkins took away from his discussions with the marketers responsible for American Express’ successful launch of the “Blue” card.

“They said to me, ‘You have wonderful products—good pay practices, variable pay, performance management, long-term plans and so on—but you really have to read through several pages of the documents before you get the key messages,’” Tompkins recalled. “You want to grab the attention of the reader very soon while they’re in the process. Yet many times in compensation

we'll sort of read through all of the detail and on the bottom of page three is the clincher, but you may lose their interest before they ever get there."

Critical Elements

Keeping it simple is one of several points that consultants and HR professionals say are key elements of effectively communicating issues of pay to employees. Others include:

Mission focus. "We have to focus employees, first of all, on the things that are essential to the business' success," says McCoy. "Those are the measures. After we create focus, the next thing we need to do is create understanding—that's an educational process and it's an ongoing, continuous educational process.

"We really want to help employees understand the story behind the numbers. What's important to the company? What do those numbers mean? Where did they come from? What are the trends? How can I impact them?"

Hill agrees. "I think where companies fall down is in terms of how individual employee contributions map into overall company success. Even in very large organizations there's a lot we can do to connect the value of the individual contribution to the achievement of the overall organization's success."

Transparency. "The first strategy I noticed with regard to communication when I joined the company about four years ago," says Tompkins, "was transparency. Coming in from other financial service organizations, it was a breath of fresh air to see how open American Express was."

Tompkins explains that every job at American Express has a "market reference zone"—information on how the job is paid compared to the external market, providing reference points at the 25th percentile, the median and the 75th percentile. "We allow that to be public with every internal job posting so employees can see exactly what the external pay reference is for that job."

It seems this information is needed. The Knowledge of Pay study found that 43 percent understand the influence the external market has on their pay and only 36 percent know how their pay compares to the market. And while 65 percent know the value of their incentives, only 56 percent understand how those incentives are funded.

"In terms of our variable pay programs, we believe very strongly in communicating early to the employees, giving them updates through the year in terms of how we feel the business is succeeding," says Tompkins. "This guides their expectations in terms of where the bonus pool funding may be through the year." He recommends that others take that same approach as an important means of building trust with employees.

"Understand that people, including employees, can take bad information as much as good information," adds Roche. "As human resource professionals, we're often tempted to wait until we have the whole story to tell people things." It's more effective to tell them what you know, what you don't know and when you'll know more, he adds.

Frequency. In many organizations, communication about pay happens once a year, says Wallace. Instead employees should be reminded and updated frequently on the pay plan and how the organization is doing, he advises. "It may be a meeting, a monthly report or a weekly e-mail update. Those types of little 'pings' give people a sense of what's going on and how they're contributing."

"My recommendation is that supervisors and managers use their measurement scorecard on at least a monthly, if not weekly, basis," says McCoy. "They should sit down with their employees to talk about those key performance measures which employees are incented on, and what they mean.

“That’s not something you can impart in a one-time workshop or presentation. It’s an ongoing process of management. You’re using the measures and data to help manage the performance of employees and to help them develop their skills to understand how they make a contribution.” (For more information on how managers can better communicate pay to employees, see “Speaking of Pay (www.shrm.org/Publications/hrmagazine/EditorialContent/Pages/0303tools.aspx)” in the March issue of *HR Magazine*.)

Get management buy-in. Companies that take the time to train their managers and supervisors on their compensation plans before rolling out these plans to employees at large are more successful, says Wallace. “The best way to reach your employees is through your management team.”

At Ace Hardware, says Nicolazzi, meetings are held with supervisory and management staff several times a year to explain how the salary administration structure was developed. In addition, if concerns arise, meetings are held between the supervisor or manager and the employee “so there’s relationship-building and education involved.”

At American Express, Tompkins provides “tailored messages” or talking points to leaders to ensure consistent delivery of messages. “What’s been quite affecting for me,” says Tompkins, “is when I travel to our international locations, and I hear our line leaders and our HR leaders speak to employees, we’re all using the same language.”

Engage employees. To engage employees, recommends Wallace, organizations need to “communicate a sense that they are a part of a broader team, that they are working toward a common goal.” And, he adds, “it’s not inappropriate to ask employees’ opinions, find out what they value in terms of pay, what makes sense to them and what doesn’t make sense to them.”

Ace Hardware surveys employees regularly, says Nicolazzi, asking questions about various facets of HR, including compensation. Results provide direction for future initiatives, including communication.

American Express also surveys staff, says Tompkins. Effectiveness goes beyond simply understanding the message, he adds. You need to determine whether employees are “behaving differently” as a result of their compensation package.

“One of the dimensions we look at is what we call ‘meritocracy,’” says Tompkins. “We focus on how well people understand their pay. Do they feel that they’re rewarded for their performance? Do they know how they contribute to the success of the business? These kinds of questions give us feedback around the success of our programs.”

“At the end of the day we can write the best memos, but if we’re not changing behaviors or focusing behaviors then we’ve failed.”

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