

How to Communicate Pay and Benefits to Employees

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Respect and fairness are at the heart of an effective and rewarding compensation strategy. At their core, employees want to be treated as people, rather than just a bill to be paid at the end of the day. They want to know that leadership cares enough to compensate them fairly.

Whether you know it or not, all organizations have a pay philosophy. A pay philosophy aligns values with compensation and benefits and varies from organization to organization. Your pay philosophy helps you attract and retain the kind of people you need and want in your organization.

As Al Lopus writes in his book, *The Road to Flourishing* “Compensation communicates a message to your employees about whether you value them or not. However, compensation only communicates value when you communicate compensation”. So then, how must we communicate our pay and benefits with employees?

Three steps to effectively communicate compensation with employees.

Compensation is more than just about the amount you pay your employees. It represents fairness and respect. In a sense, compensation is a language - with every paycheck you communicate important information about how you view and treat your employees. With this in mind, communicating this language of compensation is crucial to the overall health and engagement of your workforce.

There are three steps to effectively communicate compensation with employees - 1) understand the data, 2) look for gaps, and 3) communicate. Let's look at each of these in more detail.

1. Understand the Data

Every organization has a pay philosophy - whether it's documented or not. If your pay philosophy is not clear, an important first step is to identify your philosophy. Then, you need to get a pulse on how your organization understands this philosophy and analyze the data. Surveying is a great way to understand how people interpret compensation within your organization and get feedback. The BCWI Employee Engagement Survey includes several

questions to help you uncover the satisfaction of the total compensation package you offer and their ability to grow (generally, by role, and age).

With this data in hand, you can begin to investigate further who your compensation strategy is working for. Ask yourself questions like “*Who do we attract age-wise?*” and “*Does our pay philosophy work for them?*” You can learn a lot from these simple questions. For example, people in their 40s-50s have some of the highest demands on their budgets and total income (maturing families, college expenses, etc), and many organizations who have a retention issue within this age demographic actually have a compensation issue - the demands of this aging demographic aren’t being compensated at work, so they look for somewhere that will pay them more. Surveying can help demystify the why behind your compensation woes with data unique to your workforce.

In addition to surveying, it’s important to compare your compensation strategy to your competitors. Start by establishing a value for each position in your organization - this could be the market value or similar depending on your industry and pay philosophy. Then, compare your compensation to your competitors and other organizations in your industry. People are sensitive to external equity - being paid fairly for their role in comparison to their peers outside the organization - as well as internal equity - whether they are being paid fairly compared to others in their organization. Be sure to consider data from both within your company as well as externally when completing your research.

2. Look for Gaps

With your survey results and market research in hand, it’s time to look for gaps. Compare the philosophy you identified in the beginning to your findings from the survey and ask yourself,

- Is our philosophy market-based? and,
- Do we offer competitive pay and benefits in comparison to other similar organizations?

If the answer is yes but your survey results identify compensation as a problem, you probably don’t have a compensation problem, but a communication problem. Thankfully, clear communication brings several benefits. In fact, we’ve seen survey scores in the compensation section positively increase as a result of better communication - you often don’t have to change anything but just communicate better!

3. Communicate Clearly & Frequently

At the end of the day, a fair compensation plan is only fair if employees understand it to be that way. You may have a highly equitable, fair, competitive pay philosophy, but if no one understands it or knows it exists, you will continue to have problems.

As Lopus writes, “The key for leaders is to realize that rewarding compensation only contributes to engagement if employees see it as fair from where they stand, so the leader has to enter into employees’ perspectives to communicate value to them” (*The Road to Flourishing*).

Human resources are the first line of defense when it comes to communicating your pay philosophy. Provide an annual total reward statement that calculates and itemizes the full cost of compensation individualized to each employee. This includes:

- base pay,
- incentive pay,
- employer’s payroll tax contribution,
- the full cost of health benefits,
- paid time off,
- retirement savings match,
- tuition reimbursement
- And more!

Be sure to include all benefits - tangible and intangible - so your employees can get a full picture of what they are receiving. It’s also insightful for employees to see a comparison to the previous year so they can see how their compensation has increased outside of their weekly paycheck (i.e., new benefits or incentives).

The goal here is to make it easy for people to know how they are being paid and what benefits they have, while also setting clear expectations for what growth might look like (salary ranges or merit increase schedules, for example).

Of course, when communication fails, it’s easy to point the blame at HR. But managers are just as, if not more, important when it comes to communicating compensation. While official documentation may come from HR, managers are in day-to-day contact with employees and are often the first people an employee will come to with a question, request, or complaint about their compensation.

As a result, you’ll need to train managers as bought-in spokespeople for the organization’s philosophy and strategy. The worst thing you want a manager to say to an employee is “I wanted to give you more money, but *they* wouldn’t let me.” Not only is this untruthful, but it also sows seeds of distrust and resentment toward “the powers that be.” Getting buy-in from managers helps them communicate the philosophy clearly when questions inevitably arise.

WHAT ABOUT NEGOTIATION?

When compensation strategies are unclear and out of control, employees start to think that they need to negotiate. This is why communicating compensation clearly and often is key. A compensation philosophy will outline the timing and circumstances for negotiating pay based on equity. When people feel unsettled or unclear about their compensation expectations, they begin to think they need to take matters into their own hands. When negotiating doesn't work, they can feel discouraged and distrustful of leadership. Rather, a clear compensation strategy that outlines if, when, and how negotiation is handled helps mitigate this risk.

People like to feel like they are rewarded for excellent work, so be sure to also clearly articulate how compensation and performance are aligned. Staff will want to know how they can get a raise and how their performance may or may not be tied to compensation. There is a growing trend away from performance-tied compensation, so it's important to set clear expectations with staff up front, even during the hiring stages, about what they can expect.

WRAP UP

Rewarding compensation matters to your employees. We all derive some sort of worth from our work and everyone deserves to not only be compensated fairly but also understand why and how they are being compensated. Clear and effective communication gives your employees confidence that you value and respect them enough to be clear and honest, and pay them fairly.