

Communication: The missing link in compensation

Don't just talk about how much, also talk about why

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If an organization thinks its programs could have a greater impact on employee performance, it may want to revisit how it communicates matters of compensation.

For many organizations, compensation programs represent a significant area of expenditure. Many invest a lot of time and energy to develop programs aimed at better aligning employees with business needs and objectives.

Yet many organizations still grapple with whether more could be done to achieve a better return on compensation spend. And they often discover one of the missing links for optimizing the value of compensation programs is better communication.

Of course, most organizations communicate about pay, at least to some degree. And most employees understand the size of their salary increases or bonus awards.

Talk about more than just money

The reality, however, is that if communication around pay is limited to the amount of money being delivered, an organization isn't fully leveraging its compensation programs to influence behaviour and performance. For compensation to deliver optimal value, deeper dialogue is required and an organization must answer more than just the question: How much? It must also answer the question: Why?

That's because communicating how much an individual is earning — the size of a raise, the amount of a bonus — doesn't help an employ-

ee understand how he can best contribute. It doesn't clarify what is expected or how performance and results will be rewarded. Unless the factors that influence reward decisions are integrated into pay-related communications, employees won't know what they need to stop, start or keep doing so they can maximize their potential earnings.

To foster effective pay-related communications, the following should be shared with employees:

The business and its strategy, direction and commitments to customers or other external stakeholders: The goals and commitments of the organization provide the context for performance objectives at the individual level. When employees understand these links, they can more readily see what the organization is seeking to achieve and how they fit into that bigger picture.

Compensation program design and metrics: The design and metrics provide the context for pay decisions. Metrics related both to base pay and incentive pay programs should be integrated with performance management and goal-setting processes. When employees understand the factors that drive reward decisions, they can more readily see what needs to be done to succeed on the job and optimize their earnings.

That means organizations should ensure employees understand what is required to earn salary or wage increases as well as incentive awards. Extra attention may be required when it comes to communicating incentive opportunities, especially if the incentive plan includes measures related to unit or corporate performance.

Ultimately, because well-designed compensation programs are so closely tied to measures of organizational performance, they are communication vehicles in their own right that help clarify what matters most to an organization.

Performance objectives and actual performance: Although it is important for employees to understand how pay programs work, it is paramount for them to understand how they are doing against established standards and objectives. If employees are not clear about what they need to do to earn rewards, such as salary increases and incentive awards, or if they see goals as being unachievable, then the compensation programs have a more limited capacity to influence behaviour.

One important success factor is adequate training for managers to ensure they understand how compensation programs work and how to discuss these meaningfully with their people. That includes ensuring managers can explain the rationale behind pay decisions, such as salary increases and incentive awards. This is particularly important in organizations that seek to connect pay and performance.

Powerful dialogue on compensation addresses key issues of importance to employees. Typical employee questions include:

- Why did I receive this particular salary increase or bonus?
- How does what I've earned reflect my personal performance and contributions?
- Do high performers earn more significant rewards than average or low performers? If so, how much more?

• How did considerations such as company or unit performance influence what I've earned?

• What do I need to do to earn the same amount, or more, next year?

• What do I need to do to move into a higher salary range?

• Is my pay competitive with the market? How do you know?

Some organizations are concerned about how transparent to be with respect to the design of pay programs. Some have internal debates about whether or not to share information on base pay design details such as the minimum, maximum and midpoint of particular salary ranges.

While every organization must decide what works culturally with respect to such disclosure, the reality is information on compensation is much more accessible than ever before. Employees can search the Internet for information on competitive rates of pay through recruiting websites and other online data sources. They can also peruse information on what other organizations have to offer.

Organizations need to take steps to communicate more openly on matters of compensation. Compensation is a critically important element of any employment proposition and effective pay-related communication can help forge stronger alignment between an organization and employees.

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