Guide to Educating Employees About Pay

Introduction

Increasing regulations, laws, and generally accepted use of pay transparency has led us into a new era where information about pay is now widely, easily, and always accessible to employees. Educating employees about the organization's specific approach to compensation will reduce the risk of employees inevitably filling in the gaps and writing the story themselves. It is more important than ever to be intentional and strategic in setting pay and administering a compensation program to ensure equitable opportunities and equal treatment.

If you haven't started developing or implementing pay education activities in your organization, follow along for some ways to approach introducing pay education to your employees at all levels.
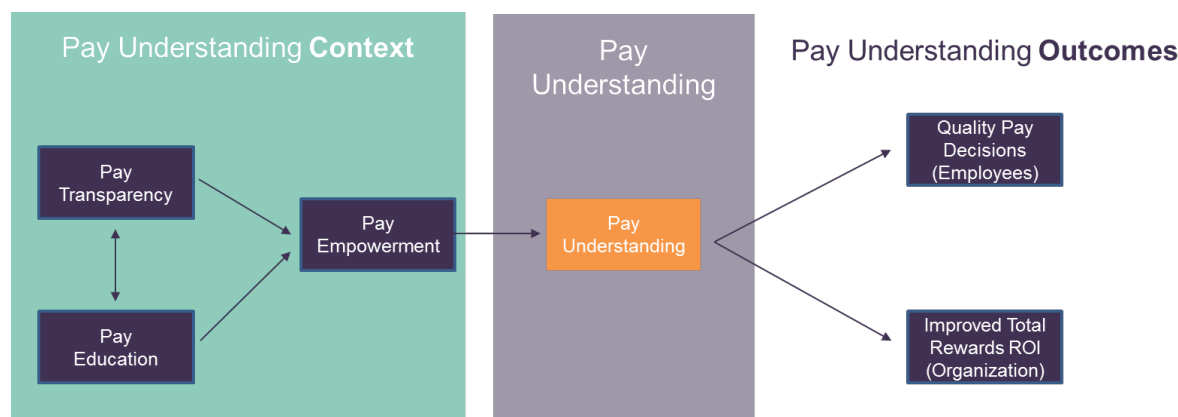
Where To Focus on Pay Education

There are four major areas to focus on regarding compensation practices within your organization:
- ❖ Pay Strategy:
    - o "We consider XYZ factors to establish our goal of N and this guides ABC decisions we make."
- ❖ Pay Process:
    - o "We perform these activities, these people are involved, and this is how they are involved."
- ❖ Pay Communications:
    - o "We are telling you when and what to expect from which team/person at this frequency and at this level of detail because it is part of our compensation strategy of N."
- ❖ Pay Outcomes:
    - o "We pay $X to $X for this role because Y."
    - o "Everyone makes Z."
    - o "We typically hire new employees between the minimum of the pay range and the midpoint of the pay range."

Most compensation program elements can be sorted into one of these four areas of focus. Your approach to internally educating the organization around your compensation program should be tailored to at least three audiences: leadership/executives (perhaps a board of directors as well), managers who directly supervise employees, and all employees (which includes leadership and managers too.)

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Total Rewards Empowerment Framework

Pay Understanding **Context**

Pay Transparency

Pay Education

Pay Empowerment

Pay Understanding

Pay Understanding

Pay Understanding **Outcomes**

Quality Pay Decisions (Employees)
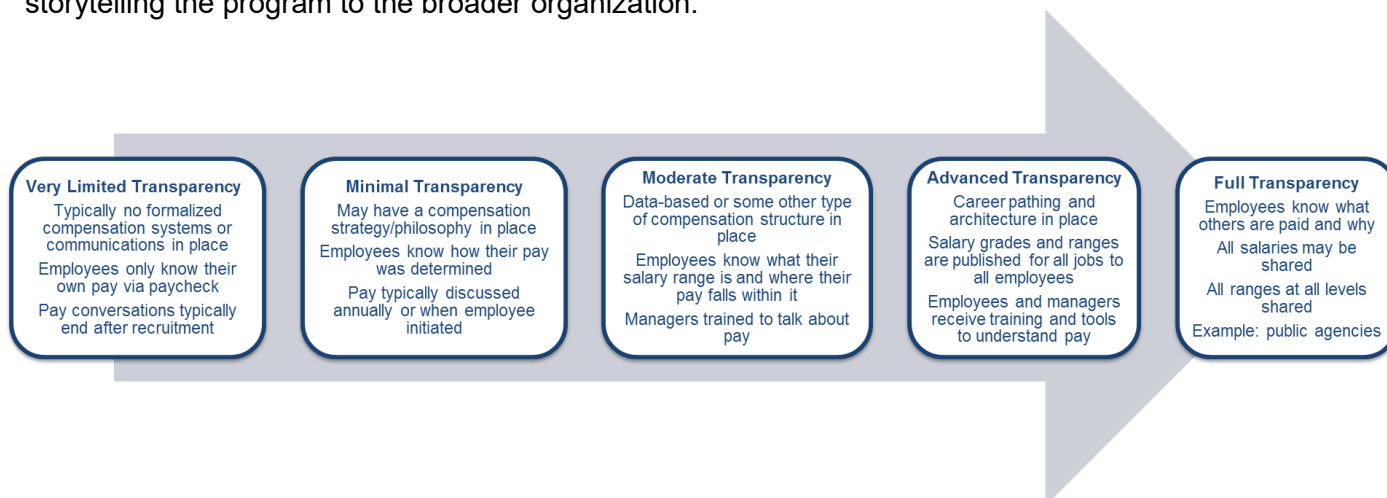
Improved Total Rewards ROI (Organization)

Cragun, Ormonde et al. "Teaching Employees About Pay Helps Avoid Transparency Problems." WorldAtWork, December 4, 2023,
https://worldatwork.org/publications/journal/teaching-employees-about-pay-helps-avoid-transparency-problems

Pay education is only one aspect of a compensation strategy. By investing in educating your employees about pay at all levels, you develop an environment where employees have a deeper understanding of the reasoning behind pay decisions resulting in "pay understanding." Deeper understanding of the strategic decision-making behind why the organization pays in the manner it does and for the specific behaviors and outcomes identified helps to incentivize behaviors from managers and even individual contributors to enforce these beliefs through small decisions which roll into larger impacts.

Organization's Pay Transparency Stance

Looking at the pay transparency spectrum below can help an organization determine what level of transparency to set pay education communications overall. Messages will likely need to be tailored depending on the audience as not every audience is working with the same background knowledge and pay context in your organization. This is not a good opportunity for a one-size-fits-all approach and requires thoughtful intentionality to drive the intended results and outcomes.

When planning pay education communications, ensure you have a defensible, equitable approach before storytelling the program to the broader organization.

Very Limited Transparency
Typically no formalized compensation systems or communications in place
Employees only know their own pay via paycheck
Pay conversations typically end after recruitment

Minimal Transparency
May have a compensation strategy/philosophy in place
Employees know how their pay was determined
Pay typically discussed annually or when employee initiated

Moderate Transparency
Data-based or some other type of compensation structure in place
Employees know what their salary range is and where their pay falls within it
Managers trained to talk about pay

Advanced Transparency
Career pathing and architecture in place
Salary grades and ranges are published for all jobs to all employees
Employees and managers receive training and tools to understand pay

Full Transparency
Employees know what others are paid and why
All salaries may be shared
All ranges at all levels shared
Example: public agencies

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Pay Education for Top Leadership

Top leadership may need more granular information than an individual employee or a people manager may need. Alternatively, the organization may decide all information related to the compensation program can be shared equally with all audiences. The decision of differentiating or combining compensation-related messaging and information should be informed by the business strategy which informs the compensation strategy.

Key information to cover in leadership discussions:

- ❖ Total costs for compensation structure increases
    - o Variance year over year
    - o Increases or decreases expected and how they relate to the overall budget
- ❖ Total spend on salaries and benefits for employees
    - o Total % of spend vs. overall personnel budget $
- ❖ Any legislative impacts on how the organization administers pay
    - o Pending or resolved lawsuits, regulatory changes in states of operation, federal minimum wage increases, etc.
- ❖ Salary trends in the marketplace and amongst competitors
- ❖ Macro and industry-specific economic factors and trends which may affect the business' profitability and/or overall success
- ❖ How the effects of the compensation strategy affect retention and turnover metrics/other measurements being used to identify business issues and successes

Pay Education for Managers

The manager-employee relationship is extremely important. Employees often go to their manager first when they have a need or question, and rightfully so! The manager-to-employee relationship is a key factor in how employees experience their work, their role in the organization, and their overall perception of the culture & standards. These perceptions inform employees' performance, commitment to their work, and overall quality as an asset to the organization.

To be truly effective, managers need to know specific details that have an impact on the compensation and earning potential for those they supervise. A trusting relationship between a supervisor and those they supervise is imperative to success. Managers should be trained on expected behaviors that align with high quality work according to the organization's standards and strategy for service and/or product delivery.

Key information to broadly distribute in manager trainings:

- ❖ Who is eligible for the various forms of compensation offered by the organization
- ❖ Why an employee is eligible for pay plan(s) or not
- ❖ How much budget is available for rewarding employees
- ❖ How to differentiate high performance from low performance

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- ❖ Impact of performance rating on employees' compensation
- ❖ What standards of performance align with each performance rating
- ❖ How to define overall performance based on organization goals/KPIs/objectives
- ❖ What is expected from them in their evaluation as an employee's manager
- ❖ Why they gave the ratings and corresponding pay action(s) to the employee
- ❖ What to say (or not say) in conversations with direct reports

Straightforward answers for managers to provide to employees' questions such as "how was my pay determined?" and "how can I earn more next year?" should also be prepared and distributed to empower meaningful conversations with managers & their direct reports.

Approaches to sharing this information with managers:

- ❖ 1:1 with direct manager/leader
  - o *Best for all sensitive personal conversations about individual performance*
- ❖ Overview sessions held by HR/leadership to outline performance management program
  - o *Best for sharing general information to a wide audience*
- ❖ Offering HR office hours for managers to drop-in and ask questions
  - o *Best to offer as supplemental resource to a large audience/group*
- ❖ Peer group calibration trainings focused on how to identify and evaluate assigned performance ratings
  - o *Best to gather peer-level managers and train them as a group then come back and re-evaluate ratings as a group to ensure consistency in application of ratings*
  - o *For larger employers, may break out by business line or into more granular groupings vs. smaller employers*
- ❖ Static resources available for ad-hoc questions (i.e., FAQs, policy, training video, etc.)
  - o *Nice-to-have resources to free up human hours/workload for other tasks*

Managers need to be well-resourced and well-prepared for a positive or a potentially contentious conversation. Not all conversations will go well or will go poorly. If there is no preparation, however, it is almost a guarantee the conversations will not be as successful as they could have been with intentional preparation.

Pay Education for Employees

In a Pay-For-Performance Culture

Employees need to know what behaviors and actions influence their pay. A certain level of transparency in performance expectations is required for successful employee performance. Transparency in compensation outcomes has been shown to improve employee commitment overall and bring confidence to employees that they are being treated fairly by their employer. Providing training to employees on how they will be evaluated and how they are expected to produce a summary of their work and at what frequency (e.g., quarterly, semi-annually, annually, etc.) is imperative to ensure thorough self-evaluations.

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Key information to broadly distribute in employee trainings:

❖ What the organization's performance standards are
❖ What is expected from them in their performance overall
❖ How they measure up to the performance standards
❖ How their performance was evaluated by their manager
❖ What factors/information is included in the performance evaluation
❖ Where to improve performance
❖ What went well throughout the year
❖ How their performance impacted/didn't impact their compensation
❖ How to effectively plan for future success/goal setting with manager and employee

In a Non-Pay-For-Performance Culture

For organizations who don't tie performance to pay actions, it's important for employees to know what the expectations are for adjustments to their compensation. For example, perhaps the organization administers a cost-of-living adjustment (COLA) to all staff between 3-5% each year. In what circumstances will they receive an increase of 3% and when will it be 5%? When is it effective and who is eligible to receive the COLA? Will it depend on the available funding if the organization relies on grants? All these details are important to consider whether you choose to get granular in employee communications or not. Outlining the conditions for changes in pay is imperative to creating a trusting relationship and belief in fair treatment by the employer.

Approaches to sharing this information with employees:
❖ 1:1 with direct manager
   o *Best for all sensitive personal conversations about individual performance*
❖ Overview sessions on compensation program and/or performance management process held by HR/leadership
   o *Best for sharing general information to a wide audience*
❖ Offering HR office hours for drop-in questions
   o *Best to offer as supplemental resource to a large audience/group*
❖ Static resources available for ad-hoc questions (i.e., FAQs, policy, training video, etc.)
   o *Nice-to-have resources to free up human hours/workload for other tasks*

Without organization-wide training, not every employee has the same experience with the same performance management processes. An equitable process is key to making equitable decisions. Investing the time and energy to ensure employees know how the process works is a good investment in your workforce and provides the best ROI on the effort spent to develop and manage the program for the organization. If performance standards are not clear and compensation is not motivating the right behaviors, the compensation strategy is not as effective as it could be, which ultimately will impact revenue.

Final Thoughts

Consider how educating your organization around compensation can lead to more educated use of budgets to bring an even greater impact on employee behaviors with the same amount of money. Invest in training managers to become fluent in your compensation philosophy and strategy so there are additional resources in your organization who can answer questions from their direct reports. Be clear about what your organization does and does not reward with compensation. Set honest expectations and deliver your compensation plan in a fair and equitable way.

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