

# 4 Tips for Communicating Your Compensation Plan to Your Employees

By Donald Nickels

How well do your employees understand your compensation plan and philosophy? Clearly communicating compensation plans to employees is worth the effort. It can lead to harder-working, more loyal and satisfied employees. “But it’s complicated!” you say. You’re right. Let’s talk about what your organization might do to make compensation plans more transparent to your employees.

## Defining Compensation Plans

Explaining compensation to an employee should be simple. In its most basic form, compensation addresses what are known as “extrinsic rewards,” which are rewards that are provided by the organization in the form of financial, material, or social rewards. The reason compensation plans are so difficult to define is because there are so many factors that go into developing compensation. The world of compensation has unique definitions, designs and functions. How do you make them easy for a non-HR savvy employee to understand? The following are a few ideas on how to communicate your compensation plan to employees.

that are based upon pay grades or pay ranges. Organizations usually design these by looking at the positions in their company and identifying such basic factors as education needed, tasks involved, skills used and abilities required. Then positions are slotted into pay grades along with other jobs that are similar in scope and responsibility. Developing a pay range makes compensation more clear because it delineates to the worker what their base compensation will be and the potential for earnings growth within the position.

A transparent compensation model can make communicating with employees somewhat daunting, because they might feel that they know better what positions belong in which ranges, and have a hard time looking at their own position objectively. But, this type of transparency works well because employees know immediately from the start what their

## 1. Pay Grades

### How to Explain Basic Pay

Many organizations use compensation plans

base income is, as well as where they might be financially several months or years from now. This method of delineating and communicating compensation grades works for most positions, but not all, e.g. CEO or other senior executive roles.

## 2. Compensation at the Start

### Reasons for Differences in Starting Pay

Employees can be motivated by knowing there is a lot of room to grow in their industry or job position. The pay they start out at can be influenced by how much their base salary can grow. For example, their pay may start low but have a lot of room to expand with experience. Or, if more years of work won't make them better at their job, they may get their highest pay right from the start. It's important that they understand this fact.

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As an example, high school graduates should be equally ready to take positions both in manual labor, as well as positions in retail. Usually the jobs involving manual labor pay higher initial wages than a job in retail, which has much more room for career growth into managerial positions. This is because the job ladder for manual labor jobs tends to be short, or even non-existent. Much in the same way that estab-

lished pay grades provide advanced knowledge of extrinsic rewards to come, employees who are provided their own job ladder within their career field may understand why there is an initial compensation difference between their own job and someone else's.

## 3. Identifying Wage Differentials

### What Is the Theory of Compensating Wage Differentials?

What are wage differentials? According to the book "Microeconomics," wage differentials are those differences in wages between various workers, groups of workers, or even differences between workers within a career field. For example, a worker with many more years of experience than another worker, although both of their jobs require the identical tasks, may make significantly more than a worker who is just beginning in the same field. Although not always confined to experience, there are certain qualities in a worker – experience, education, certifications - that might create wage differentials within the same job field.

It is important, in some manner, to identify and document when a wage differential is appropriate, so as to prevent both confusion and a sense of inequity on the part of those who don't understand it. A recommendation would be if there is a group of workers who have specialties in your workplace, such as workers who know a specific programming language that your company relies on, it would be helpful to identify and support your pay practices for them through the use of job titles. The job

titles can help set apart those who are considered more advanced in their career expertise.

## 4. Benefit Summaries

### Explaining Total Rewards to an Employee

How well do your employees understand their total compensation - the amount of money spent on them by the company – outside of base salary? To communicate total compensation to employees, some organizations use what is sometimes referred to as an annual benefit summary. What this summary does is provide a detailed list of costs incurred by the organization to retain, train, support, and reward a member of that organization. There is nothing complicated about it, it just requires some research on the part of the person who is developing it.

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If a human resources professional wanted to write an annual benefits summary for an employee who currently receives a base salary, a company profit sharing bonus, fully paid medical/dental, and free parking, it would be very simple to do. The HR professional would simply put together a list of their benefits and annotate the cost that the company pays for each benefit on an annual basis.

This tool is useful for communicating com-

pensation to employees, and sometimes eye opening for the employee, especially when they see how much an organization spends on fringe benefits. I'm even daring to say that the average employee has a very foggy view of what the business spends on their behalf for a benefit like medical insurance.

Of all the suggestions I have made to clarify and communicate your compensation plan to your employees, the summary of benefits is perhaps the most straightforward.

Beyond preparing a summary, remember the following tips:

- Refine compensation plans for your positions that account for education, skills, tasks and responsibilities in such a way that they make sense to an outside observer.
- Explain benefit packages in a manner that reminds employees that they are not intrinsic to the position itself.
- Make compensation predictable through the use of either an established pay grade, or even a pay-for-performance approach. Employees can gain an understanding of their base pay and set goals beyond it.
- Be available, as an HR professional or accounting professional, to explain compensation plans to employees. This not only increases the employees' insight into what their company provides them, but also provides the resourcing professional a chance to gauge the current applicable compensation plans against various job niches and titles.

**Donald Nickels** has over a decade of experience in human resource. Following a successful tour as a Commissioned Officer, Donald received an Honorable Discharge from the U.S. Army Military Police Corps at the rank of Captain and entered the civilian workforce. His most recent position as the first permanent HR professional for an

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