Compensation Connections 18-2

Dear Reader,

Pay Transparency, Pay Fairness and Distribution Fairness in this edition of Compensation Connections! Read On!

Pay Transparency

Let's start the topic of transparency with two definitions relevant to this topic.

trans·par·ent (trans'perənt/) adjective

1. (of a material or article) allowing light to pass through so that objects behind can be distinctly seen

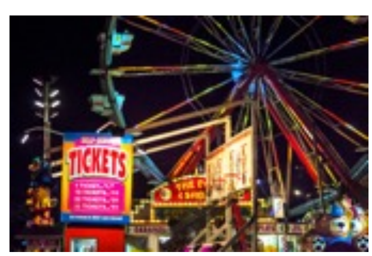
Synonyms: clear, crystal clear, see through, translucent, pellucid, limpid, glassy, plain as the nose on your face

Antonyms: opaque, cloudy, thick

2. easy to perceive or detect; obvious, evident, self-evident, undisguised, unconcealed, conspicuous, patent, clear, crystal clear

Fair (/fer/) noun

1. A fair is an annual competitive and recreational gathering of a county or state's population, usually held in late summer or early fall. It often includes exhibits or competitors that have won in their categories at the more-local fairs. May include recreational rides, unusual foods, etc.



Let's agree that transparency and fairness isn't just about the data. Great research by the Compensation Roundtable of the Corporate Executive Board shows two primary aspects of employee understanding of pay that drive employee performance (their discretionary efforts) and retention (intent to stay) linked closely to transparency. Both of these drivers are influenced by a manager because they are based on the employee's perceptions, and those perceptions are influenced by the manager's actions or lack thereof. The two drivers (briefly defined) are:

Pay Process Fairness	Employees who believe that pay process are fair are half as likely to leave a company as those who believe they are not.
Pay Distribution Fairness	Employees who believe that pay distribution is fair are likely to give half again as much effort as those who believe it is not.

These perceptions about fairness are both able to be influenced by a manager.
Now why did I define the word fair as I did rather than the context used here? Because the word fair is most often extremely subjective, since a decision about what is fair in terms of pay is usually made with limited information. And that's the point of understanding these two drivers of employee performance.

Process Fairness

Perceptions of process fairness are driven from design of organizational systems and processes and manager decision making:

- The perceived understanding of the pay and performance system (performance targets and communication for example)
- The perception that the system in which performance and pay decisions are made is 'fair' (how organized, equitable and achievable targets are, and again communication)
- The perception that performance ratings and pay are determined in a 'fair' manner (manager)
- The perceived understanding of how individual performance and pay decisions are made (manager)

Pay Distribution Fairness

There are two familiar levers of pay distribution fairness: internal equity and external competitiveness. Employees need to believe that their pay level is 'fair' compared to others in their organization and 'fair' compared to others in comparable organizations.
Managers typically make pay decisions within the context of tools and budgets. Common tools include:

- Competitive pay ranges (the external, allows pay differentiation for higher performers)
- A merit model (internal/external tool, such as a merit matrix) to allow distribution or pay adjustments based on competitiveness and performance
- Other individual performance or behavioral factors used to differentiate other types of pay

such as bonuses (internal)

Key Success Factors

With acceptance of the need for transparency, it should be understood that transparency isn't just an on/off switch; it exists on a spectrum. Fully open transparency may be too much for both managers and employees. But when the company guards information about the how and why of pay, the research makes clear that it loses more often than it wins. Here are some starting points to consider:

- Employees need to be correctly classified – right job and level. It's hard to make good decisions when the base data is incorrect.
- Job matching needs to be a higher priority for HR managers for their clients. We can't represent that external data is accurate when this isn't so.
- Compensation policies have to be well designed and communicated, and managers frequently trained on how they are applied. Minimize exceptions.
- Experiential education (for example case studies or role-playing) are good ways to increase managerial aptitude.
- Broad acceptance and "uptake" on your performance management system, in particular equitable target setting that includes employee input.
- A consistent strategy and communicated approach to allocation and distribution of elements of rewards and budgets.

Finally, here are some suggested metrics (percent favorable responses) to help guide your path to greater compensation transparency. The answers to these questions are measurable within the context of an employee attitude survey. ***Notice that nowhere is the word 'fair' mentioned.***
1. I understand what is expected of me to increase my chances of receiving a promotion
2. At our company people are rewarded according to their job performance and accomplishments
3. I understand how my base pay is determined
4. I understand how my performance is evaluated
5. I understand how my bonus/incentive is determined

Jim Harvey is Founder and Principal Consultant for Columbia Compensation Consulting Inc. His 35+ years' experience encompasses high-tech, aerospace, utility and health care industries, specializing in leading companies in the formulation and execution of their rewards strategies in support of business objectives. His global work experience and collaborative reputation includes translating business needs and ideas into tangible and measurable deliverables, and a hands-on results- oriented attitude with a strong track record of driving large-scale projects through to delivery and implementation.

At Columbia Compensation Consulting, you are working with someone with over 35 years of expertise in executive, equity, incentive, sales and base compensation. My consultative style includes a D-T-S approach to working with clients: D for Do, since most clients have already identified the need and are looking for specific deliverables; T for Teach, where those opportunities present themselves and transferring knowledge to the client can enable self-sufficiency in the future, and S for Support either through ongoing retainer support or coaching of those then delivering. For more information please visit www.columbiacomp.com.

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