

DTD Episode 68 Show Notes

Defeat Your Compensation Drama

Many companies have a formal policy that requires employees to keep the specifics about their pay private.

I certainly understand what motivates these policies. Conversations about pay almost always cause drama! However, rarely do these policies serve their purpose. And, often, I find they are enforced more aggressively when there really is no legitimate rhyme or reason for how much employees are paid. In other words, the gag order is created to avoid the drama induced by an unfair pay plan.



The reality is pay is an emotional thing. It's not JUST about the dollars. AND, probably the more you try to keep it a secret the more they'll talk about it. It's just kind of the nature of things. If employees don't understand how their pay is calculated they won't feel that their own pay is fair.

I don't know about you, but I've rarely heard anyone say, "they pay me too much." Either people are quietly neutral about their pay or they are disgruntled about it. Few are singing from the rooftops about their hourly rate or salary.

Another fun fact about compensation, once you provide some kind of compensation it quickly becomes an entitlement. Now they just expect it. Take it away or provide less and.....you've got drama.

I've spent years working in compensation and have generated calculations that impacted the wages of thousands. I know the emotion that pay practices can ignite! And I've learned some strategies to avoid the drama that is always a potential.

So....what can you do to minimize compensation drama?

Here are a few strategies:

1. Have a rhyme or a reason for how you pay people. Do have pay scales. Pay drama happens when employees feel that their pay is not fair. And fair is a subjective term based on comparisons to others. Fair can be based on internal comparisons, internal equity, or external comparisons, external equity. Are you paying people fairly compared to similar jobs outside of your company? Salary.com is a good place to start if you don't have access to customized salary data. The jury is out on the accuracy but over the years I've found it to be a helpful tool. The reality is, even though compensation is based on numbers it will never be an exact science. There are subjective components to valuing skill sets or responsibilities. Use the data, add or delete value based on your specific jobs, the skills required and the responsibilities and create those pay scales.

If you have additional questions or need help contact me Defeat the drama and select the contact tab. As I said, I logged many years as a compensation professional:

<http://defeatthedrama.com/#contact>

Once you have good pay structure assure that you are paying well individually. Within

the organization are you providing similar pay for similar jobs, experience, education, quality of work? Have you brought new employees in higher than long term employees? Do you have family members or friends getting preferential pay treatment? Ask yourself the tough questions and do what you can to rectify the situation. If you are over paying some employees consider “red circling” their pay. This means keeping them at their same rate until or making smaller adjustments until their pay lands within the appropriate pay scale.

2. Communication – Communication – Communication! Share how you came up with your pay plan. I’ve shared before that in the absence of fact people have a tendency to fill in the spaces with negative assumptions. Trying to keep your pay plans secret creates stress and anxiety and a whole lot of drummed up drama. Have a good rhyme or reason for why you pay what you do and share that information freely. Now, I’m not suggesting you share individual pay information. I am suggesting you share generically how pay is calculated. How did you come up with the pay scales? How do you compare to your competitors and where does an individual employee fall within their pay scale.
3. Keep pay consistent. If you have a bonus plan communicate how it is calculated and stick to it. In tougher years, through good communication, your employees will know and understand why the bonuses are lower or non-existent. In better years pay the extra with a smile. If the calculations you’ve created and communicated are done right you’ll have plenty of net profit to cover bonuses while still enjoying a healthy business profit. Create the calculations well and then keep them consistent. And especially when it comes to commission based pay, changing the rules often creates a lack of trust. Lack of trust creates drama. Create a plan that assures that the business makes money as your commissioned based people make more money. Too often I’ve heard business owners or leaders say they don’t want their sales force to make too much money. If the pay is proportioned correctly you do want them to make a lot of money.

Constantly changing the rules to finagle less pay and you'll have lots of drama and sales people walking out the door.

4. Calculate Total Compensation and Communicate it – like I've said, pay is an emotional thing. Employees feel valued or devalued based on the price tag you put on them through their pay. Do not underestimate the monetary value of your benefits or other perks. I have implemented total compensation calculations and the results have always been good. The additional investments you make in your employees will raise those numbers. If you are in the U.S., don't forget the FICA calculations as well. Include everything you possibly can. To include paid holidays, vacation or sick time you can subtract those hours and then divide the salary by hours actually worked. For example, a full time employee works 2080 hours per year at 40 hours x 52 weeks. Now subtract out 2 weeks vacation and 7 holidays, as a for instance. 17 days x 8 hours = 136 hours. The salary you are paying them including their health insurance is actually based on 1,944 hours per year. Divide annual salary plus benefits, perks, etc. to provide the new hourly rate calculation.

That's probably enough examples. I don't want to inundate you with numbers in a podcast. It's probably kind of hard to visualize by listening. Just know that there are lots of ways to play with the numbers and it's a good idea to help your employees visualize the full value you are providing for them.

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