Pay Fairness and its Impact on Employee Engagement

Mark A. Szypko, CCP, GRP

Smarter Workforce
Perception is reality

The importance of pay fairness to employees and organizations

The WorkTrends™ survey

Employee responses presented in this report were gathered as part of IBM’s WorkTrends™ survey,¹ which has been administered annually or biannually since 1984. In 2012, the WorkTrends survey was taken online by approximately 33,000 employees in 28 different countries who work full-time for an organization of 100 staff members or more.² The survey asks employees more than 200 questions about employee opinions and attitudes, manager and leadership behaviors, organizational practices, and demographic variables. WorkTrends data are unique because they are a representative sample – a cross-section of workers across the globe, which enables us to generalize our conclusions to the broader working population.
Mark A. Szypko, CCP, GRP

Mark has over 30 years experience as a compensation practitioner, and has held compensation, benefits and HR systems leadership roles for a number of organizations including Honeywell, Digital Equipment Corporation, Wang Laboratories, Kronos, Comcast, Progress Software and Lightbridge.

Mark has extensive experience in all aspects of compensation, including the design, development, implementation and ongoing administration of compensation systems and programs including base pay, variable compensation, sales and executive compensation. Additionally, he has experience in international benefits, mergers and acquisitions and HR systems selection and implementation.

In his role here at IBM, Mark drives research on trends in compensation practice and spends most of his time meeting with our customers and other compensation professionals to understand the challenges that HR professionals face in today’s market. He speaks on compensation and HR-related topics globally and is a member of the WorldatWork faculty.

Mark holds a Bachelor of Science in Business Administration from Suffolk University and a Master of Business Administration from Western New England College with a concentration in Management Information Systems. He is also a Certified Compensation Professional (CCP), a Global Remuneration Professional (GRP), a WorldatWork Editorial Review Board member, and a recipient of WorldatWork’s Lifetime Achievement Award.
How do you know if pay is fair?
A few questions…

Do you believe your employees are paid fairly?

Do you believe you are paid fairly?
WorkTrends is a research program begun in 1984

In its current form, WorkTrends is a multi-topic survey completed online by a sample of workers diverse in terms of industry, organization, occupation, gender, age and other key organizational and demographic variables

In 2013, we collected data from full-time regular employees and independent workers across 26 countries

In the present study, we focused on regular employees in the United States (N=8,925)

The survey measured a wide range of workplace issues, including attraction, quality of hire, manager effectiveness, employee engagement, training, career advancement, compensation, recognition, collaboration, innovation, turnover intentions, and others.
Pay fairness over time

REALITY

- Aligned to the market (median)
- Equitable across similarly situated employees
- Compliant with relevant statutes

PERCEPTION

- I’m not paid enough for the work I do
- I don’t know why they pay me what they do
- My co-workers who do the same thing make more than I do
Perception matters

Percent Agree

- Satisfied with Work Life: 86%
- Satisfied with Leisure Life: 81%
- Satisfied with Family Life: 91%
- Turnover Intentions: 22% (Fair Pay), 47% (Unfair Pay)
- Work Stress: 14% (Fair Pay), 35% (Unfair Pay)
- Employee Engagement: 84%

Drivers of belief in pay fairness

Obviously “fair pay” is important …..

What drives employees’ belief that they are paid fairly?
Drivers of belief in pay fairness

*Pay Transparency*
- Understanding how pay is determined
  - Knowing how to maximize pay

*Pay for Performance*
- Believing pay is related to performance
- Believing pay is tied pay to goal achievement
Building belief in pay fairness

Drivers of fair pay

Percent of Employees Who Believe Pay is Fair

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<td>Understand how pay determined</td>
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Current perceptions

- Understand how pay determined: 79%
- Know how to maximize pay: 67%
- Pay related to performance: 44%
- Pay tied to goal achievement: 51%

Source: WorkTrends™ 2013
Communication breakdown

Understand How Pay Determined

- Executive or Senior Leader: 90%
- Mid-Level Manager: 81%
- Front-Line Supervisor: 79%
- Individual Contributor: 77%

Know How to Maximize Pay

- Executive or Senior Leader: 87%
- Mid-Level Manager: 75%
- Front-Line Supervisor: 68%
- Individual Contributor: 62%

Engagement
Engagement

“The extent to which employees are motivated to contribute to organizational success, and are willing to apply discretionary effort to accomplishing tasks important to the achievement of organizational goals.”
Engagement

In the EEI, employee engagement is measured by asking employees how closely they agree with the following four items:

- **Pride** - I am proud to tell people that I work for my organization

- **Satisfaction** - Overall, I am extremely satisfied with my organization as a place to work

- **Advocacy** - I would gladly refer a good friend or family member to my organization for employment

- **Commitment** - I rarely think about looking for a new job with another organization
Drivers of pay fairness and engagement

Engagement Matters!

Source: Beyond engagement: The definitive guide to employee surveys and organizational performance, IBM, 2013.
Pay transparency and communication culture

In my organization, there is open, honest two-way communication

- I have a good understanding of how my pay is determined.
  - 56% Unfavorable
  - 81% Favorable

- I know specifically what I need to do to maximize my compensation.
  - 37% Unfavorable
  - 72% Favorable
Building belief in pay fairness

- Address the key drivers
  - Understanding how pay is determined
  - Knowing how to maximize pay
  - Believing pay is related to performance
Fact: they will self-educate

- Understand their sources
- Recognize the opportunity for dialogue
- Don’t be defensive
- Silence does not equal understanding
What do we do about it?

- Plant the seed
- Get out there!
  - On the floor
  - In the field
  - Out of your office (cube)
- Engage managers at all levels
  - Employee education
- Go beyond base pay
Pay for performance

- Define what high performance looks like
- “Pay for Performance” vs. “Increase for Performance”
- Merit matrix
Belief in pay fairness

- Impacts engagement (which impacts business results)
- Can make or break our programs
- Susceptible to external forces
- Driven by transparency
- Is within our control
Transparency drives belief in Pay Fairness

Belief in Pay Fairness drives Engagement

Engagement drives Business Results
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