Managers know that engaged employees are more effective. But despite the vast amount of employee engagement research out there, very little of it focuses on a person’s primary reason for employment in the first place: getting paid.
PayScale, the compensation software company where I work, surveyed 71,000 employees to study the relationship between pay and employee engagement. The study results revealed that one of the top predictors of employee sentiment, including “satisfaction” and “intent to leave,” was a company’s ability to communicate clearly about compensation. In fact, open and honest discussion around pay was found to be more important than typical measures of employee engagement, such as career advancement opportunities, employer appreciation and future enthusiasm for the company.

Pay is a crucial component of engagement because it’s not just a number; it’s an emotional measure reflecting how valued an employee feels by their employer. And it turns out, how people feel about their deal plays a huge role in how engaged they are in their work. While there’s still a lot to learn about the connection between the perception and reality of compensation, and how both relate to engagement, we identified a few interesting data points that may change how you talk to your employees about pay.

First, people are often wrong about how much they’re paid compared to the going market rate. Perceptions about pay don’t always reflect reality, even if employers are paying the same – or more – than similar companies. In fact, a whopping two-thirds of people who are being paid the market rate believe they’re actually underpaid, representing a huge discrepancy.
This leads to our second finding: perceptions about pay play a significant role in an employee’s desire to leave your company. This may sound obvious, but our survey showed that “intent to leave” decreased in relation to how favorable an employee felt about their pay. For example, 60% of employees who perceived they were underpaid said they intended to leave, compared to only 39% of those who perceived they were overpaid. The bottom line is this: if you don’t communicate to your employees that they are being paid fairly compared to their talent market, they may leave.

But if you’re worried that discussing pay may reveal you pay less than a competing company, take heart with our third piece of data. We discovered that transparent conversations about money can actually mitigate low pay. So, if an employer pays lower than the market average for a position, but communicates clearly about the reasons for the smaller paycheck, 82% of employees we surveyed still felt satisfied with their work. Conversely, we found overpaying employees in an effort to retain them without having this larger conversation about pay.
doesn’t ensure they are more satisfied. Our study showed it is more effective for employers to compensate top talent at market value and discuss how pay was determined than to pay them more than market value and keep company compensation practices shrouded in secrecy.

We also found that this type of communication becomes even more vital in any position that pays more than $85,000 per year – so the intent to leave tends to be more pronounced for professionals who are paid over this amount.

Lastly, when it comes to gender and compensation, the study showed that women who are paid above the market average for their job are 18% more likely to believe they are underpaid than men in the same pay bracket. While our research can’t pinpoint exactly why this is the case, the public discussion around the gender pay gap is likely at play - and rightly so. It’s true that women on average earn less than men when you look at all jobs held by women and compare it to all jobs held by men. However, earlier PayScale research shows that when you compare apples to apples – which is to say compensation for the same job, with employees having the same skills – the gap is much narrower. Even if you’re paying men and women the same amount at your company, women are more likely to believe they are underpaid. Open communication around pay is hence even more crucial to ensure employee satisfaction for women that hold key positions in their workforce.

Clearly, having transparent and honest conversations with employees is a no-cost way to improve engagement. But for many businesses, it represents a challenge because it means adopting a whole new mindset around pay. Employers today should arm managers with accurate market data reflecting talent markets to base the conversation in fact. These discussions should not only show employees how their pay was determined, but also how pay relates to performance or responsibility, and what it takes for an employee to get to the next pay grade. Finally, they need to remember that how their employees feel about compensation matters just as much as what they’re actually being paid. When it comes to having a more engaged workforce, you can’t assume that an employee’s perception about pay matches reality.
Dave Smith is the Chief Product Officer at PayScale, creator of the world’s largest database of unique salary profiles. He leads a team that builds compensation solutions designed to help businesses attract and retain talent.

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Basharat Naeem 7 days ago

I think, the role of honest dialogue and reasoning around pay, especially low pay, by organization seniors is extremely important in developing countries than developed ones given the unfavorable labor market conditions for workforce to boost their satisfaction and reduce intent to leave even for the mission-critical talent of the organizations.

Basharat Naeem

Assistant Professor-COMSATS (CIIT)

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