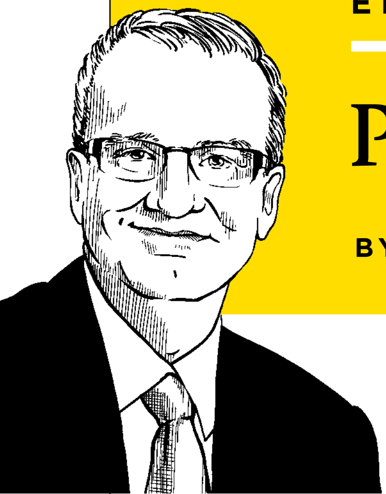
ENDGAME

Pay Ratios, Gone Badly

BY JONATHAN DAHL



It's one of those bits of news that leaves you a little puzzled. *Is that right*, **a voice is asking you.** *I hope someone thought that out.*

No matter what end of the political spectrum you're on, you can understand how the financial calamity of 2008 begot a public upset with Wall Street that begot a cry for reform that begot Dodd-Frank. But a Securities and Exchange Commission rule that came out of it after years of debate, and is about to go into effect, would seem to be a whole different matter.

As of Jan. 1, companies will need to disclose the CEO's total compensation and the median of the total comp of all other employees, to create a ratio between the two. This executive pay ratio hasn't gotten a fancy name yet, but you can only imagine what sensational numbers those ratios are going to light up. (The estimates range all over the place, but one puts the highest at more than 1,000 to one.) Personally, I give myself all of two seconds flat to look up my own company's ratio. But take a moment to consider the implications and you've got a potential workplace disruption that will give Pokemon Go a run for the money.

The intention of course is to put the spotlight on the CEO. But common sense tells you that inside any company, people's real focus isn't going to be the CEO's paycheck—but their own.

The real focus won't be on the CEO's paycheck—but your own.

Ouch. You can hear the bandage ripping off when you now have something real to compare to. Guaranteed, a sizable number of employees who thought they were doing well comparatively to everyone else are going to be upset if they are near the median. This is the way of the world. My good colleague Mark Royal, Korn Ferry's senior principal and expert on engagement, tells me workers get far more upset discovering not that a competitor is paying better, but that a colleague of similar skills and experience—all widely subjective—is making more.

This, by the way, isn't the only problem with the rule. The rule allows for some exemptions, and experts say it gets tricky defining who is an employee in this age of contingent and foreign labor, and that determination is bound to create unfair discrepancies. Also, some argue that companies should be using a weighted system for determining the ratio, to prevent an overemphasis on a single salary.

Of course, legal challenges, or ultimately government interventions, could someday junk the whole thing. But for now, there's the obvious question of what companies should do. Obvious, except that many don't seem to be gearing up for the reality of facing a whole mess of disgruntled staffers, and what that may mean to morale—and potentially the bottom line.

Turning again to my Korn Ferry colleagues for their thoughts, I'm told a measure of preparation might be judicious at this stage. Handled well, the ratio disclosure might be an ideal time to review compensation packages with workers. As Mark puts it, go beyond actual pay and discuss the intangible rewards, and explain the full value proposition of the job. This is where front-line managers can make all the difference in the world, discussing and setting goals and explaining the ratio the staff is seeing. In other words, don't just let the median salary numbers sit without comment, as if they were left accidentally on the copy machine.

Indeed, in the end, the most important issue that may come from this new layer of transparency might not be the ratio or rankings themselves. We all know deep down that openness of almost any kind can produce more good than harm. But the *way* company and corporate leaders handle this will leave a lasting mark. Step up to these numbers, I say—as well as the topic of compensation in general—and fewer employees will find fault with them. In short, just tell me like it is.

And then don't forget my raise. ●

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