What Is Fair Pay

by David J. Wudyka President – Westminster Associates

A landowner went out early in the morning to hire men to work in his vineyard. He agreed to pay them a denarius for the day. Three hours later he went out and saw others standing in the marketplace doing nothing. He told them to go and work in his vineyard and he would "pay them whatever is right," so they went. He did the same again in the sixth, ninth and eleventh hours. When evening came, the landowner paid the workers, starting with the last hired. Each worker received a denarius. But those hired first expected more. The landowner told them "I am not being unfair to you. Didn't you agree to work for a denarius? I want to give the man who was hired last the same as I gave you. Don't I have the right to do what I want with my own money? Or are you envious because I am generous? So the last will be first, and the first will be last." Matthew 20:1-16.

What is "fair pay?" Some people associate fair pay with what one receives for "a fair day's work." This is certainly one way of understanding it. But setting that pay rate is where the problems begin. What is fair to one person is not always fair to another.

Different perceptions about pay fairness is illustrated in the Bible's "Parable of the Worker in the Vineyard", quoted above. In this parable about God's grace and love, and the rewards that He promises will follow from "working in his vineyard" (i.e. for following him and his word), some workers thought that they were not paid fairly. The landowner thought that some workers (those hired last) were paid "generously." All were paid in accordance with the landowner's offer and the pay custom of the time.

Today, the pay strategy in this Parable would certainly not be considered "fair." However, this Parable illustrates the essence of Equity Theory (J. S. Adams), which helps us to understand how people perceive pay fairness. Adams suggests that each of us compares our "inputs" (e.g. work) and our "outcomes" (e.g. pay). If we deem this comparison "unfair," Adams states that we may alter our inputs in relation to how we perceive our outcomes.

He also suggests that we alter our inputs based upon how we perceive the relative inputs and outputs of so-called "relevant others" (e.g. co-workers). Therefore, we may work harder (i.e. input) to increase our rewards (i.e.= output), or we may withhold our services (i.e. input) because we believe our pay is much too low, as compared to others' pay levels. Recent research into Equity Theory even identifies people called "benevolents" who feel discomfort if anyone is making more money than they are (truly a distinct minority!).

As a consultant, I am often asked what employees should be paid “to be fair.” Like any good consultant, my answer is often “it depends(!)” What does “it” depend upon? “It” depends upon a variety of factors which conscientious organizations evaluate as they strive to establish fair-pay programs. These factors include work experience, special expertise, skill criticality, loyalty, time-on-job, time in a profession, on-the-job performance, the hanging marketplace, internal equity, the ability to pay, and others.

To cite some examples, a client hospital recently discovered it was paying RN’s with less than five years of experience as much as RN’s with 10-20 years of experience. Is this unfair? The hospital was uncomfortable with the pay similarity. Employees thought pay should be based solely on years of professional experience, versus being paid for meritorious performance. On the other hand, new RN’s enter the workforce with new knowledge about nursing methods and technologies. Should they be paid less simply because they are “new?”

Sometimes what is “unequal” is not always “unfair.” A friend once told me that, when raising her children, she would remind them that she may give more to one than to another because they may need more, or they earned more, or simply because they were “first.” But doing so does not suggest that those who got less then will always get less. Eventually, much like the message in the Parable, they too will need or earn more, or get more simply because it is their time.
Some people evaluate the fairness of pay across different jobs (a classic “Comparable Worth” debate). A former general manager of a large defense contractor was once challenged as to why janitors earned more than secretaries. He acknowledged that the janitors did earn more and offered an opportunity to the secretaries to take the janitor’s job to earn what they were paid. The secretaries politely refused. “I guess,” he said “that must be why the janitors are paid so much – no one wants their job!” Touché.

Finally, we sometimes question the fairness of executive pay. At times their multi-million dollar pay levels are difficult to accept or justify. Yet we are sometimes glad that the burden to bear is theirs, not ours. Some people would not do the executive’s job “for all the money in the world.”

The debate rages on

The good news is that pay systems today are much better than ever. We have more pay strategies than ever for producing “fair pay” for a “fair day’s work.” These strategies include individual, group and team-based pay systems, innovative perquisites, and much more.

Companies can be guided to establish fair pay and to achieve three forms of equity: job, market and pay. When jobs are fairly graded and paid relative to each other, employers achieve “job” equity. When people inside a company are paid fairly relative to people outside of the company, the employer produces “market” equity. And when people are paid fairly relative to each other, the employer achieves “pay” equity. The latter is what we read so much about in the press, especially relative to gender equity.

Pay practices also depend upon a company’s compensation philosophy. Some employers don’t strive to pay fairly. Others make it a priority. Others want to, but can’t afford it. The trick is to make the best possible use of your firm’s compensation dollars when striving for pay fairness, whatever “fair pay” may mean to you and your company.