Will this be another insane payrise?

Understanding and changing behaviour around payrise expectations can result in benefits to the individual and the organisation. **Matt Linnert** explains

Before you give someone their next payrise, ask yourself "is this going to be just another insane payrise?"

So what makes for an "insane payrise"?

Let's first look at the definition of insanity. A common definition, albeit probably not the dictionary definition, is doing the same thing in the same way and expecting a different outcome.

Interestingly, the majority of times someone receives a payrise, within three months or so they see no tangible benefit of receiving increased pay. They think it will make a difference before they receive the increased income, but such a prediction fails to materialise into any real change.

Then the next performance and pay review comes around, the negotiation for a payrise takes place, usually under a certain level of anxiety for all parties, and then three months later, the same thing happens – there is no noticeable change or benefit reaped. In fact, there is a good chance that there is a deepened sense of pay dissatisfaction.

This represents not only an insane payrise pattern on an individual level, but an insane pattern on a collective level. This behavioural pattern is costly to the financial position of both the employee and employer, and is costly to the relationship between the employee and employer.

There are two ways to respond to this pattern. The first is to ignore it. The second is to understand where this behaviour comes from, and then do something about it.

The second approach requires us to consider two questions:

- **Why does this happen?**
- **What can be done about it?**

Why does this happen?

When understanding behavioural patterns and personal financial management, it is important to first understand what motivates us around money.

First of all, we have the ego-self which sees money as a tool to grow self-worth.

Secondly, there is the strategic-self which sees money as a resource to fund a desired lifestyle, present and future.

When your employees are asking for a pay rise, it is important to understand whether it is the ego-self or strategic-self playing the dominant role.

When the ego-self is dominant, your employees will want a payrise for one of the following reasons:

Employers benefit from employees who look after their finances, at least to the point that they are not financially stressed

1. Because their colleague got a payrise
2. Because they could earn more in another industry
3. Because they are worth more, without a fundamental reason
4. Because they should get a payrise each year
5. Because the boss must be making more money this year

The ego-driven payrise helps your employee feel 'good' about themselves, at least for a little while, but it does little to provide genuine lasting financial benefit.

It is important to highlight there is nothing wrong with approaching a payrise through the ego, many of us do it, have done it, and will do it.

However, when the ego-self is the driver, the focus is on getting a payrise, not what can be done with additional income, leaving the strategic-self sitting in the shadows.

It is for this reason that within only a small period of time, no material benefit has occurred from the payrise, leading back to the pattern of 'not enough – need more – not enough – need more'.

To progress towards the harmonious place of genuine pay satisfaction, the next time you discuss a payrise, educate your employee to put the ego to side, and encourage the strategic-self to be the dominant player. There are four tips on how to do this.

Importantly, the strategic-self does not hang one's self worth on receiving a payrise or not. The strategic-self is rather emotionless about how much money it earns (or doesn't earn), and is more interested in what it can do with what it earns, as opposed to just getting more.

When the strategic-self is dominant, a different approach leads up to the payrise, which increases the likelihood of different outcomes and actions once the income has increased. It is only through taking such an approach that the pattern of the insane payrise can be broken.

What can be done about it? Four practical tips to help you

As mentioned above, before the next pay review, educate your employees to put the ego to the side and employ their strategic side. Some people can do this more readily, depending on their money personality preference; however, everyone can make some form of progress.

The following considerations can assist in the education process:

Consideration 1: **Are there reasonable grounds to expect a payrise?**

If the organisation has had a difficult time of it, there may simply be a lack of financial resources to increase wages. Depending on your employee's role, they may feel that this is out of their control. Nonetheless, discussing organisational realities is an important first step.

On the other hand, if the organisation is going well, and your employee's contribution quality and/or quantity has at least been stable, and preferably has grown, then there is every reason to discuss the merits of a payrise. In most cases, your employee will be expecting at least a discussion.

Consideration 2: **What will your employee do with the increased pay?**

When your employees use a payrise to fund a short-term interest, such as a weekend away, new TV, or similar, they are likely to experience a short-term rush, with a resulting low of dissatisfaction. Soon the plasma means little, and the money is gone.

From a satisfaction perspective, your employees are better off funding holidays through regular savings than one-off kickers like a jump in income. If you really want to assist your employees in this regard, help them get clear on what they can do with the money they earn on a regular basis, which provides medium and long-term gains.

Here are some activities your employees could do that are likely to grow pay satisfaction:

1. Increase mortgage repayments
2. Increase the amount they regularly pay off personal loans, like credit cards and car loans
3. Start or increase the amount paid into a savings plan. Savings plans used for home deposits, further study and investing are likely to lead to noticeable personal and financial benefits
4. Increase personal contributions to a superannuation fund
5. Take out a loan to further improve their home
6. Take out a loan to purchase other investments

For some of these activities, depending on the knowledge and competence of your employee, further education or personal financial advice may be warranted.

Consideration 3: **Do the calculations!**

Remember that an increase in pay is typically expressed as gross income. Encourage your employees to take out income tax to determine how much they have to work with from pay to pay. (Unless they salary sacrifice the gross income increase straight to superannuation).

To determine the increased after-tax income, you can do the calculations for your employee, or use it as an opportunity to advance your employees knowledge of personal finance and the tax system.

They do not need to be a maths whiz. There are a range of income tax calculators available online. You may also encourage them to complete a budget to see if any money is slipping through their fingers.

Consideration 4: **Encourage your employee to share their strategy with you**

Employers benefit from employees who look after their finances, at least to the point that they are not financially stressed.

Employers typically want their employees to be satisfied with their pay, but the reality is, what your employees do with their pay is their choice, and these choices drive pay satisfaction.

You may find an opportunity to encourage them to be open about how they are faring financially and if they feel they are making the most of their earnings. Not every employee will be open and willing to have such a discussion, but you may find that more are than aren't. Just by asking the question, you are demonstrating that you expect your employees to look after their finances, and to at least take a reasonable amount of responsibility.

Such a discussion balances up the responsibility for pay satisfaction to both employer and employee, not just one or the other.

The ego is in its place and your employees are moving ahead

By encouraging your employees to engage the strategic-self, and put the ego-self on the shelf, the potential conflict and anxiety around pay review reduces. With time, your employees will be more stable when discussing pay levels.

By taking a more strategic approach, your employees are more able to consider both the plight of the organisation, as well as their own needs and opportunities. This enables a more harmonious and balanced conversation to be held, and also increases the likelihood that a noticeable and sustainable difference is achieved for the employee.

By using these tips, you increase your chances of strengthening pay satisfaction and minimising financial stress, while enriching the collective performance of the organisation. **HC**

About the author
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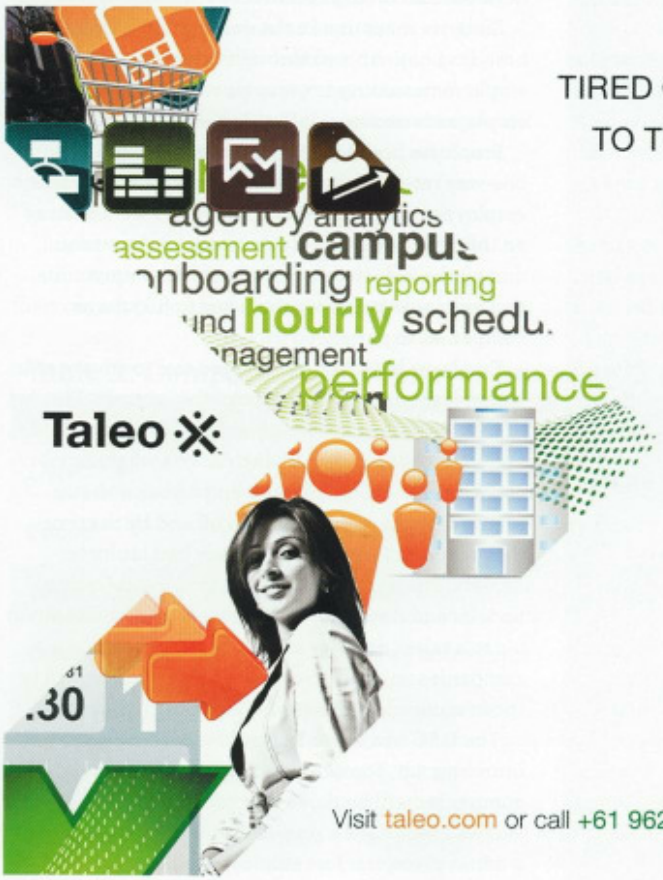

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