



workspan, February 2004, Volume 47, Number 2

Focus On Communication

Talk Is Cheap ... Or Is It? Calculating the Value of Total Rewards Communication

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Everyone touts the importance of communication in the workplace, but sometimes it takes more than talk to win management's approval. This article offers a formula total rewards professionals can use to find the real value of communicating to employees.

Quick Look

- While communication regularly is touted as a key reason for a program's success or failure, it is not always easy to communicate its actual dollar value.
- There is an equation that may help professionals translate the value of a good communication program.
- The "price" of communication involves tangible and intangible aspects that can be quantified.

As a total rewards professional, you've got plenty on your plate. You're working to get a seat at the proverbial table. You're proving your bottom-line worth to the organization. You keep up-to-date on leading-edge practices and participate in continual learning opportunities.

As such, you may have noticed a trend: communication. Every presenter at every conference or breakfast meeting laments the need for a communication element in whatever it is they're talking about. Perhaps it's the new total rewards program, or maybe a culture change initiative. Regardless, communication is a critical factor in its success. And despite your understanding that communication is a vital component of total rewards, you may find it difficult to explain (either to yourself or your superiors) the *value* of communication.

You are not alone.

Many business leaders don't understand the value of communication. Moreover, it's difficult to calculate the value that effective communications bring to the organization. A potential solution to this dilemma is for practitioners to use the following equation:

$$V = (c + e)^P$$

That is, the value of communication is equal to the costs plus the efforts of what you're communicating, to the power of perception. Note that, in this equation, value does not refer to return on investment, but to the inherent worth/importance of communication.

Calculating the value of communication is important because effective communication is often the key driver of the success of an HR initiative. Yet a common woe heard among total rewards professionals is that top management sees communication as an expendable overhead cost.

The $V = (c + e)^P$ equation alters the focus of HR communication from tactical to strategic. In traditional thinking, the value of HR communication has been measured against the costs of media. That is, if an open enrollment brochure costs \$5 per employee (for 500 employees), the value of communication was thought to be \$2,500. The fault in this sort of thinking is that one might try to find a return on investment (ROI) on the \$2,500.

In the value equation, the unasked question is, "What is the success of what I am communicating worth to my business?" By asking this, the focus on the cost of the media is shifted to the importance of an initiative to the organization.

From this vantage point, communication becomes a strategic aspect of the overall initiative instead of an overhead expense. By applying the equation to the initiative, the strategic reasons for undertaking a communication process can be determined. By applying the equation to an HR initiative, empirical reasons for communicating (other than, "We need to explain this.") will surface.

In Aon Consulting's 2002 *United States @Work* study, researchers found that communication about benefits had a higher correlation to commitment than the actual benefits. (See [Figure 1.](#))

Figure 1: How Benefits Communication Influences Employee Commitment

Experience with Benefits	Impact on Commitment (Correlation Coefficient)
Medical insurance	0.22
Paid vacation time	0.23

and holidays	
Retirement savings plan	0.23
Employer-paid pension	0.26
Benefits communication	0.36

Source: *United States @Work*, Aon Consulting.

In many respects, the communication function is similar to the HR function of the mid-1990s. At that time, HR professionals began approaching HR as a strategic business initiative rather than as a "soft" skill. Quantifiable measures and tools were developed to prove the department's value, resulting in increased respect and understanding for the profession. That being said, take a closer look at the elements that comprise the equation $V = (c + e)^p$.

Value

In this equation, V (value) is determined by the monetary and anecdotal worth of what is being communicated. Often, the value of communication is equated to production costs (e.g., printing, salaries, vendors, etc.).

But in this equation it is assumed that sound communication strategies are being executed and:

- Goals are clearly stated
- Solid messages are in place
- The audience is known and understood
- The most effective media and timing have been determined
- Measures of success are identified
- The project is within budget.

But this list does not include the level of trust or credibility employees have in the organization. Trust and credibility are the foundation upon which effective communication is built. Without these two building blocks, it will be extremely difficult to effectively communicate anything.

Costs

For costs, actual real-dollar figures are put on the value of communication. Again, consider what's being communicated. For example, if a total rewards professional is communicating the company's medical benefit plan, he or she should use the bottom-line costs associated with providing the benefit. In many organizations, this figure is substantial: If an organization pays \$1 million to provide medical benefits, then the monetary portion of the equation is \$1 million. Another way to look at the cost in the equation is by estimating the effect of not communicating. For starters, employees may

not know how to properly use their medical benefits. In that case, the \$1 million investment is squandered because the plan no longer is the competitive differentiator it was meant to be.

Moreover, medical benefit plans require legislatively mandated communication. Not fulfilling these communications requirements can lead to fines; those fines also may be a way to determine the cost involved.

Efforts

Time often is an individual's most valuable asset. The time taken to achieve an organizational goal is a resource that can't be recouped. The efforts made on behalf of an employer must produce results that help move the organization forward. With that in mind, the value of effort can be estimated both monetarily and anecdotally.

Monetarily, efforts can be calculated by adding an employee's total monetary rate (salary, benefits, overhead, etc.). A variety of time measurements will calculate efforts, as well (e.g., hourly, weekly, monthly, etc.).

Arguably, this portion of the equation is better suited for the costs. However, efforts also relate to employees' organizational well-being. This is where the anecdotal element comes in.

For example, some employees may spend significant time and effort in creating a new compensation process. Because the process was not communicated properly, it never met its potential. The employees who labored to develop the process may feel slighted and morale may suffer. This can have a negative impact on the organization.

The Power of Perception

Perhaps the most powerful element of the equation, perception is what fills any gap between reality and expectations. When delivering communication, our job is to keep that gap as narrow as possible.

Perception permeates an organization. It is the conclusion people draw from what the organization says and does. Perception is the invisible media vehicle that employees use when programs, policies and goals are not formally communicated. From an employee's perspective, "that new business initiative can't be that important if you didn't bother to show me what it means to me and how I can help make it happen."

To ensure costs and efforts are bearing their proper rewards, perception needs to be managed as much as possible. This is achieved by ensuring that audiences have a firm grip on business realities. Moreover, effective communication creates realistic expectations.

While managing perception is akin to herding cats, organizations risk losing all communication value if the audience takes messages and formulates conclusions other than the ones intended.

One way to manage the gap between expectation and reality is to understand the expectation. This can be achieved by conducting focus groups or employee surveys. The key is to ask employees about their beliefs. Gathering employee feedback is a communication discipline unto itself. Internal or external communication professionals may need to be involved to gather and synthesize the information for you.

Using the Equation

The good thing about the equation ($V = [c + e]^p$) is that it's easy to say: The value of communication is equal to the costs and efforts of what you're communicating, to the power of perception.

The bad thing is, "V" is not one nice, tidy figure. Value actually is a combination of all the factors that make up the concept or initiative being communicated. By recording these factors, you can show the *business* need for properly communicating.

The following example shows how to calculate the value of communicating a medical benefit offering.

Assumptions

Company: XYZ Inc.

Demographics: 1,000 employees, no unions, 50 percent female/male, 10 percent management, 25 percent professional (including engineering), 5 percent sales, 10 percent miscellaneous blue collar, 50 percent trade/assembly. There are four locations throughout the western United States.

About the Plan: XYZ always has provided a medical benefit. This year the company is offering a dual option plan -- a preferred provider organization (PPO) and a health maintenance organization (HMO). XYZ is increasing the cost of the HMO to encourage migration to the PPO. The company would like to have 75 percent of enrollees participate in the PPO, and would like for that 75 percent to take a more consumer-type approach to the plan.

Costs: XYZ spends \$1 million on medical premiums annually, employs five mid-level benefits professionals and paid a consulting firm \$50,000 to help establish the plan.

Determining the Value of Communication

First, determine total costs by cataloging the prices of various factors in offering a medical benefit plan:

- Annual premium
- Staff costs
- Vendor costs
- Future costs (the amount of cost increase if employees don't use the plan properly).

Next, determine the amount of effort needed to implement the medical plan:

- Benefits staff hours (240 hours per person over four months)
- Employee hours (three hours to review and enroll in the new plan)
- Ongoing monitoring.

Finally, take into account the perception factor. To do this, the plan's end users must be actively engaged. This can be achieved through focus groups, individual interviews or surveys. The key is to determine what employees believe is true.

Figure 2 is an example of how the value of communicating the medical plan can be shown.

Figure 2: The Value of Communicating ABC's Medical Benefits Plan	
The value of communicating XYZ Inc.'s new employee medical benefit is equal to:	
Costs	
Costs	Explanation
\$1 million	XYZ's annual medical premium amount
\$240,000	The salary for five benefits staff members working only on the new medical plan
\$50,000	The cost of hiring the consulting firm to help implement the new medical plan
\$80,000	The difference between a 12-percent and 20-percent increase in medical premium. If employees do not use the plan properly, there will be misuse, which will result in a higher-than-average renewal rate.
Efforts	
Efforts	Explanation

1,200 hours	The amount of time it will take five benefits staff members to plan, strategize and implement the new medical plan. (Calculated at five employees x 240 hours over a four-month period.)	
3,000 hours	The amount of time employees will spend researching and enrolling in the new plan. This often is done in off-work hours. The point is, employees are spending time to understand the plan.	
2,000 hours	The amount of time the five benefits staff members will spend monitoring the plan (e.g., claim issues, employee inquiries, etc.). Calculated at five staff members x 10 hours per week for 40 weeks.	
Perception		
Expectation	Reality	Perception (if reality is not communicated and expectation is not understood)
"I should have a comprehensive medical plan with choices."	The plan compares favorably to companies in ABC's industry.	Employees believe the plan is not up to standard.
"I should be able to enroll myself and the my family in the plan without much effort or time."	XYZ is using an online enrollment system that walks enrollees through the enrollment process.	Employees think the enrollment process is difficult and time-consuming.

<p>"The medical plan should be affordable and fairly priced."</p>	<p>While not a nominal cost, employees' monthly medical premium is slightly less than the national average.</p>	<p>Employees think the plan is too expensive.</p>
<p>"I should be able to go to whichever medical facility whenever I want."</p>	<p>While this is technically true, the amount the employee pays is much higher than a physician office visit or visit to an urgent care facility. ER misuse can adversely affect utilization, causing overall costs to increase.</p>	<p>Employees believe they can go to the emergency room for minor, non-lethal ailments.</p>
<p>"My co-pays should be minimal because they cover the cost of care."</p>	<p>The co-pay is only a fraction of the actual bill. The insurance company bills XYZ the amount not covered by the co-pay.</p>	<p>Employees believe their co-pays cover the entire cost of their medical bill.</p>

Go Forth and Show Your Value

Many of today's business leaders don't understand the value of communication. In communication terms, value is achieved by giving audiences exactly what they want at a great price, except this price includes intangibles, such as commitment, productivity, contentment, etc. It is critical for today's HR professional to express this value to organizational leaders to make total rewards programs successful.