# WAGE COMPRESSION WOES:
## *WHY SHOULD YOUR CURRENT WORKERS STAY?*

**I can't afford to raise wages for everyone! It was hard enough to get approval to raise the starting wage.**

Does that sound familiar to you? It sure does to us. And while we'll agree you're in a tough spot and that money doesn't grow on trees (unless you run a lumber company 😉), the hard truth is that raising starting wages while neglecting comparable pay raises for current workers will lead you nowhere good.

Throughout the first quarter, we surveyed just over 100 of our client employers, and 38% said they implemented pay increases within the past six months or had plans to implement an increase in the coming month. Of those, 84% increased starting pay rates and 21% implemented sign-on bonuses. Improving starting compensation without adjusting pay for current workers leads to compression—the situation in which new employees make similar or higher wages compared to long-term employees who have greater skill sets, more institutional knowledge, and/or higher productivity levels—and has many negative consequences that cannot be overlooked. Low morale, decreased productivity, and little or no incentive to gain new skills or take on additional duties are obvious outcomes, but the real kicker is the effect on turnover: You'll spend time and money to replace tenured employees with lesser-skilled workers at comparably higher wages, leading to a decreased return on your labor costs per dollar spent.

The good news is that you have options to help you navigate today's tight labor market and the need to sharply increase starting wages while also addressing the wages of your current workforce.

Ponder these options:

- **INITIATE A PROGRESSIVE PAY PROGRAM OVER 6, 12, OR 18+ MONTHS.** Progressive pay programs typically result in good returns (see our white paper at ElwoodThinks.com). A tiered program gives your company the time it needs to implement changes that keep profits steady by offsetting planned labor costs increases, like finding efficiencies that will decrease the cost of producing goods or making small price increases.

- **OFFER NONCASH BENEFITS:** Flexible scheduling, compressed workweeks (remember to be mindful of daily overtime, if that's mandated in your market), unpaid time off, shift swaps, and part-time schedules (which may be offset by state unemployment benefits) can be strong motivators for workers who generally like their jobs and are looking for reasons to stay. If you choose this route, survey your workforce to figure out what workers want before implementing a program—or ask us to set up a survey for you.

- **CREATE A PAY-FOR-SKILLS OR BROADBAND PAY PROGRAM:** If your jobs are such that tenure equates to no or only marginally higher piece-rate productivity levels, consider implementing programs that encourage employees to acquire new skills (pay-for-skills) or to pursue lateral or latticed career paths (broadband compensation models). Both programs encourage professional growth which should, in turn, pay dividends through increased productivity, stronger interdepartmental relationships, and new idea generation, leading to better business ideas and improving operating efficiencies within and between departments.

Pay is never a panacea, but you cannot neglect the fact that retention of long-term employees who do not experience wage growth like offered in the open market is not likely over a long period. If an employee can earn more money elsewhere … *why should they stay with you?* You can answer that question by adjusting your total rewards strategy.

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