Penny High, Pound Smart:
The Benefits of Higher Wages on Talent

ManpowerGroup™

It’s a delicate time for many companies.

These organizations need workers to seize fresh opportunities and launch new products and services that can help them grow.

But finding and retaining workers has become more challenging than ever. With the slow, steady decline of the unemployment rate, there are fewer candidates than ever. Many of those available lack the right skills.

Increasing compensation can help firms address this problem. It can ensure that they have the talent to improve efficiency and innovation. A number of major brands have already developed a new appreciation of the connection between pay, talent and results. Such major brands as Target, T.J. Maxx, Walmart, McDonald’s and Starbucks boosted starting wages over the first six months of 2015, and others are likely to follow suit. Experts are predicting upward pressure on wages for the remainder of the year and beyond as more organizations see the advantages of higher pay and benefits.

“Candidates are looking for more competitive employment packages due to the tightened labor market. Offering wages at or above the market average allows employers and recruiters to more quickly source and attract the best talent,” said Sunny Ackerman, Vice President and General Manager for the West Division of Manpower.

But the timing and execution has to be right. Done without an overriding strategy, pay hikes are likely to have an only temporary benefit. That can leave companies in the same situation as if they didn’t use incentives, at all: grasping for ways to make workers feel valued, struggling to secure the most skilled talent.

The most successful, long-term improvement in hiring and retention requires a systematic approach. That means involving senior management and creating a process similar to what a company would do for any other important initiative. Make no mistake: Compensation initiatives on an organizational level represent a fundamental business change, not a stopgap measure.

Organizations must think deeply about how increasing compensation might fit with their human resources and overall business strategy. They must consider their resources and the competitive landscape. They must look carefully at the types of employees they want to have on an ongoing basis. Among the questions they may consider are:

- What skills are needed for the available jobs?
- Is pay increased for one group of employees or multiple groups? If one group is excluded, how will others who do not receive a boost respond?
- What are their competitors paying for similar positions?
- What is the supply of in-demand talent in their market?
- What other benefits are included in the employment package?

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HISTORIC TIMES IN RECRUITING AND RETENTION

Companies’ concerns about talent come amidst historically complex economic conditions. Since the Great Recession of 2008, growth has been slow but steady. The U.S. banking and auto industries that once seemed doomed are on solid footing. Demand for durable and non-durable goods, particularly consumer technology and electronics, and consumer confidence – long trusted measure of economic health – have been solid. Yet the slowing of China’s economy and recent drop in Asian stock markets is another reminder of how quickly times can change.

Technological advancement and the rise of emerging markets has placed an unprecedented importance on speed – to innovate, produce, deliver products and services, and to ensure customers have a place to go with their compliments and complaints. New work models abound, a byproduct of new technologies. Companies that delay because they don’t have the right employees risk losing growth opportunities.

All this has underscored a burning need for talent.

Yet many organizations can't find the right workers. Earlier this year, ManpowerGroup's 10th annual Talent Shortage Survey found that 38 percent of nearly 42,000 hiring professionals worldwide were unable to find the skills they need. That was the highest level since prior to 2008's crisis and represented the second consecutive year that there had been an increase.

As the survey shows, the tangible problems resulting from the shortage are clear:

- A whopping 54 percent of hiring professionals said that the talent shortage was having a high to medium impact on their ability to serve clients.

Among that total:

- More than four in 10 hiring professionals said that this scarcity would reduce their ability to serve clients and their competitiveness.
- Three in 10 said that they expected an increase in worker turnover.
- About one in four said they anticipated lower creativity.
- One in four said that compensation costs would ultimately rise.

"Not having the right talent in place can greatly affect an organization's ability to succeed. Whether a manufacturing plant or customer service center, companies suffer when positions go unfilled. In some cases, we have seen the talent shortage affect a company's ability to sustain a competitive advantage. Now, more than ever, it is critical that employers attract high-quality candidates," Ackerman said.

LOWER UNEMPLOYMENT BUT CAUTION IN HIRING

National unemployment has been hovering just above 5.1 percent, its lowest mark since early 2008. Some economists consider this full or acceptable unemployment because even in robust economies, there will always be people who lose their jobs or work seasonal positions that run their course.

The end effect is that the balance of power between employer and employee has tipped to the latter. Job seekers who not long ago worried about their security can now compare offers, including compensation. "It is an employee's market," John Cyrier, co-founder and president of the 48-employee Austin, Tex.-based builder Sabre Commercial Inc., told Bloomberg Business News in mid-April.

A number of economists are expecting this trend to widen in the coming months. In employment research group Glassdoor's second quarter Employment Confidence Survey, 52 percent of employees reported confidence in the job market. It was the first time since Glassdoor first posed this question in early 2009 that a majority of employees felt this way.

"As we see consumer confidence and the economy surging, we also see job market confidence, expectations for a pay raise and business outlook optimism not only increasing, but hitting new highs, further supporting that we are currently in the best job seeker's market we've seen in a generation," said Rusty Rueff, Glassdoor career and workplace expert. "Employers should be on alert that employees may be more willing to jump ship or ask for a pay raise, especially younger workers. This subset of employees will need special attention because, for the first time since they entered the workforce, they are feeling the effects of a very healthy job market. Extra attention on retention efforts will help reduce turnover."

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>
> – ManpowerGroup's 10th annual Talent Shortage Survey

Increasing Wage Pressure

Several companies have already amped up their compensation to ensure talent does not wind up with rivals. According to the Bureau of Labor Statistics, wage growth jumped 2.8 percent in the first quarter of 2015 (wage growth slowed in the second quarter of 2015), the fastest gain in pay since 2008. This means wages are now growing even faster than the boom times of 2004 and 2005 when heated financial, real estate and technology markets propelled the economy. Research by ManpowerGroup in 2015 found that more than half of 1,000 U.S. employers reported wage increases over the previous year and that the trend is particularly strong among blue-collar workers.

In January, coffee chain Starbucks said it would raise wages for baristas and other store personnel to $10 an hour. A month later, retail giant Walmart increased the minimum wage it pays some 500,000 workers to $9 an hour. Over the ensuing seven weeks, TJX Companies Inc., – parent company of T.J. Maxx and Marshall's – Target, and McDonald's also raised wages.

Such companies are trendsetters in the business world. ManpowerGroup's Sunny Ackerman said that her firm has been receiving an increasing number of inquiries about how companies should be paying their own entry- and early-level workers. "We have seen many of our small- to mid-size clients ask for more wage data and information – they want to know the facts and be informed. They are starting to understand what many large employers have recognized – that in order to attract the best employees, a competitive wage must be part of the employment package."

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Barring an unexpected weakening of the economy, there are likely to be similar increases in the next few years, too. In an April Bloomberg News article, Mark Zandi, chief economist for research firm Moody's Analytics, predicted that wage increases of two to three percent would continue through late 2016.

NEXT STEPS

As with most important business changes, success depends on sound thinking and process.

Compensation experts advise following a series of precise steps so that new compensation policies can take firm root and succeed long term.

Companies might also account for how the company's compensation compares to other firms both within and outside its industry, and potential changes in the market place. How, if at all, should an organization adjust its compensation in times of rapid growth or decline? Such considerations would also serve to help companies develop more consistency in hiring and promotion with the ensuing benefits to its hiring brand.

A successful compensation strategy includes the following tactics:

Align with an overall business strategy: Compensation initiatives may differ widely depending on a company's stage and a range of other criteria. Younger firms looking to build their brand may want to invest in sales and marketing roles. A more established company looking to improve performance might focus on highly productive workers. Companies in retail and service industries would logically target the customer-facing positions that play such a major role in defining them.

Determine what defines success: This means thinking about what kind of talent is needed to achieve business goals. Perhaps it is a high-volume of temporary employees to meet peak season production demands, a highly skilled permanent employee or a small contract team to launch a project. Sometimes an increase for all employee groups is required; however, in any case, defining the goal before outlining a plan will help guide the strategy.

Research market demand and talent supply: Competitive pressure is important to evaluate when determining compensation. If a company's competitors offer higher wages for the same type of position in the same geographic location, it will be more difficult for that company to attract candidates. Similarly, if the supply of talent in the market is lower than demand, recruiting a pipeline of qualified candidates will be a constant challenge. ManpowerGroup's Ackerman stated, "Determining the right wage requires a look into the broader landscape. Before we align wages to positions, we take a look at employment wage data and the availability of talent in the market."

Evaluate Other Employee Benefits: Compensation is only one component of the total employment package. To ensure the package is attractive to candidates, all benefits should be evaluated – both tangible and intangible. Health benefits, retirement plans, training programs, work environment and perks are important pieces of the total package.

IT'S WORKED BEFORE, IT WILL WORK AGAIN

Increasing compensation has a track record of improving results. A ManpowerGroup study found that Manpower associates who received more than $10 an hour stayed an average two weeks longer than associates who received under $10 an hour. The higher-paid group was also less likely to leave their assignments.

A 2013 survey by the career website CareerBuilder found that of workers who were dissatisfied with their jobs, 66 percent cited insufficient salary as the cause, and roughly the same percentage said that they didn't feel valued. An additional 28 percent said they hadn't received pay increases the previous year. Those were the most mentioned reasons for employee dissatisfaction.

Nearly 60 percent of those individuals who were dissatisfied also said that they were likely to leave their positions. CareerBuilder surveyed more than 3,000 workers.

Higher retention leads to improved productivity. That's not only because workers who stay tend to know their work and the company's goals better than newcomers, but also because they have higher degrees of job satisfaction. They are also more motivated to perform well. That does not address the obvious lost productivity due to jobs remaining unfilled.

Raising compensation may also save companies significant recruiting, training and overtime costs. A 2012 study by the Center for American Progress, a research group, found that organizations replacing a worker who earns less than $30,000 incur costs equal to 16 percent of the annual salary. The study considered 30 case studies over a 15-year period.

In addition, ManpowerGroup research has found that companies that pay under $10 an hour were more likely to incur overtime expenses than firms paying more than $10 an hour. A full 55 percent of the former group had to pay overtime, compared to 44 percent of the latter group.

CONCLUSION

Companies face an unprecedented challenge to find and retain the right workers. The drop in unemployment while welcome has reduced the number of highly qualified candidates and ratcheted up the competition for talent. The inability to have the right employees in place threatens to do nothing less than undermine organizations' potential growth.

Increasing compensation can play a central role in addressing this challenge. Such initiatives have helped many companies over the years improve their recruitment and retention. That has led to increases in productivity and helped reduced costs. In recent months, a number of major firms have become increasingly aware of the link between compensation and performance. Yet organizations considering similar paths must think through their potential actions and develop a sound strategy if they are going to succeed.

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