

# BECOMING AN EMPLOYER OF CHOICE

## WHAT IS AN EMPLOYER OF CHOICE?

On a tangible level, an employer of choice is one that pays its employees wages that are equal to or above market rates. Intangibly, it is an environment where people want to work, where they stay, refer their friends, brag about your brand—where they are, in essence, happy. Job seekers naturally gravitate to and stick with employment that makes them “happy”; and to be a destination for employment, you need to make your employees feel just that—happy. And while becoming an employer of choice in your town won’t happen overnight, you can make changes now that will have a positive impact on your company’s future.

## CAN MONEY BUY HAPPINESS?

There has been quite a bit of research on the topic of income and happiness, and you have likely heard the argument that “more pay does not make happier employees.” This is not true, according to a national study<sup>1</sup>, for lower income earners (household income < \$75k), and even more so for those standing close to the poverty line. For this segment of the population, there is a correlation between income and emotional well-being and life evaluation—the intensity with which a person experiences individual daily emotions; and the general feelings a person has about his or her life.

The study concludes that “happiness” factors plummet at lower income levels, which leads to increased stress, increased anger, emotional misery, and diminishing levels of excitement about the weekend—hardly the traits of a workforce that will stick around.

Thankfully, you have the opportunity to affect positive change.

## OFFER STARTING PAY AT THE 50TH PERCENTILE OR ABOVE

Being the lowest paying employer in town is very obviously unattractive; your employees, especially those with transferable skills, are apt to jump ship at the next available opportunity, even if they enjoy your environment. Very few employers paying minimum wage sidestep a turnover battle; environment and culture, while important and valued by employees, only go so far when those same people simultaneously need to provide food, clothing, and shelter for themselves or a family. We strongly suggest you offer starting pay at the 50th percentile or above when compared to other local, available employment opportunities that have similar skill requirements. At minimum, you will only be competing on wages with half of the other available opportunities in town.

Every year, we publish a report that focuses on the starting wages offered in popular manufacturing, distribution, and oil and gas positions across the nation. Additional resources, like the Bureau of Labor Statistics (BLS), can also aid you in establishing competitive pay rates. While incredibly detailed and geo-specific, it is important to note that many sources, like the BLS, report out on average wages offered in job categories; because they include wages paid to very tenured workers, the reported wages are typically higher than we think our clients need to pay to starting workers. For this reason, our survey results may be a better starting point.

## IMPLEMENT PAY PROGRESSION

Perception is reality, and you cannot forget that when crafting your long-term wage strategy. Whether you are the highest paying employer in town or not, your employees will expect wage increases—if they don’t receive them, they’ll leave you. Among other things, employees perceive wage raises as validation that they are valued team members.

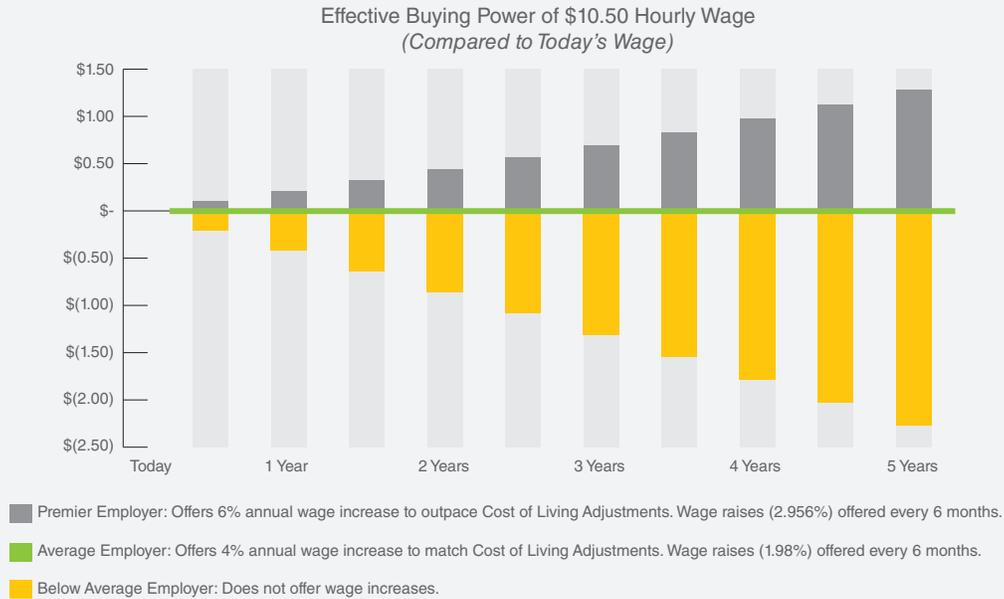
Without doubt, the time-based wage increases you offer need to at least match cost of living increases. People see increased costs of goods and services and expect that their compensation will keep up.

<sup>1</sup>Kahneman, Daniel, and Angus Deaton. “High Income Improves Evaluation of Life but Not Emotional Well-being.” Proceedings of the National Academy of Sciences of the United States of America 107:38 (2010): n. pag. High Income Improves Evaluation of Life but Not Emotional Well-being. Proceedings of the National Academy of Sciences of the United States of America, 4 Aug. 2010. Web. 26 Dec. 2014.

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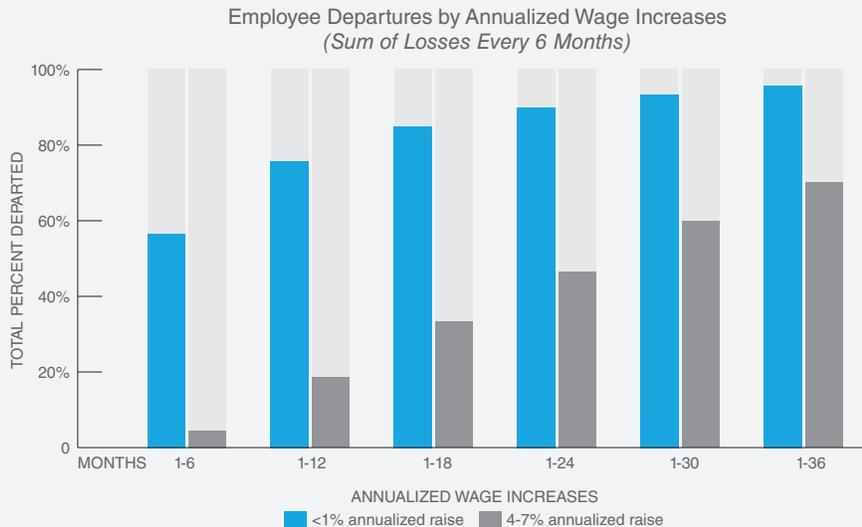
No one wants to build tenure with and bring increasing value to their employer to only receive less buying power in return. We suggest offering your raises every 6 months, as the anticipation of increased wages every 6 months is more likely to keep employees around than a single annual raise.

Consider this example detailing the change in effective buying power of today's wage of \$10.50.



While we suggest using cost of living increases as a rough starting point, we took to our database to determine if pay increases actually affect the length of time a worker stays with his or her employer, and, if so, how much the increases affect longevity. We analyzed the starting and ending wages for each position our job applicants<sup>2</sup> reported on their applications.

The results speak for themselves.



<sup>2</sup>Job Pay Histories As Reported by 2014 Applicants. 26 Dec. 2014. Raw data. Elwood Staffing, Nationwide

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Our data indicates that it takes almost three years for employers who offer 4-7% annual pay raises to experience the same losses “below average” employers experience in the first six months alone. The dichotomy between the two sets of employers is most pronounced when you consider the first 6 months: over 55% of employees who did not receive a wage raise of 1% or greater within six months leave their position, versus the 4.5% who leave when they’ve received a larger raise. This is extremely valuable information when you start to calculate turnover costs associated with mass early departures.

You’re likely wondering which came first, the chicken or the egg; meaning—did people stay longer because they had clearly identified pay raises to expect or did they get ad hoc raises simply as a function of staying longer? Don’t fret. It’s not important to answer that question. What is important is to recognize that pay progression keeps people around, period. If you have employees whose experience you value, you must increase their pay over time.

## IMPLEMENT A BONUS PROGRAM

Conventional wisdom tells you that a bonus program is a nice idea, because chances are, you enjoy receiving bonuses; but, from a financial standpoint for an industrial and (currently) transient workforce, you’re likely wondering if the benefit outweighs the cost. You’re probably tempted to argue that a bonus—more money!—couldn’t possibly bring more happiness, especially when you’ve decided to offer structured pay progression. Science tells us otherwise.

Adaptation is inevitable; with time, people adjust their lifestyle and adapt to new wages. Mentally and financially, the impact of a sustained increase (or set of expected increases) plateaus over time. Implementing a bonus program is one way to combat this complacency and keep your employees motivated and engaged, especially if bonuses are tied to achievable goals—safety, attendance, production, and similar. We’re not suggesting you shouldn’t pay a holiday bonus, but your bonus program should be geared toward rewarding an individual’s or team’s success, not the calendar.

If we can offer one last piece of advice, it is to pay bonuses as a percentage of each employee’s wage and to forego paying a flat amount to everyone in your facility. The impact of a flat, facility-wide bonus is greatly diminished for those who earn higher wages (likely, your more tenured, valuable employees) when compared to the joy felt by new employees earning less, which lessens the goodwill and overall “happiness” of some of your most important workers—hardly your goal.

## MONEY MATTERS

Simply throwing money at a problem will not make it go away, nor make you an employer of choice. But, coupled with other initiatives, strategically and systematically spending your money—yes, maybe more money—wisely can solve woes, namely those associated with recruiting and turnover challenges, and instill a little happiness along the way.

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