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Are you Paying your Employees Enough?

A disclaimer right up front! In my view salary is **never** the number one reason why quality employees will be loyal to your company, however, ensuring you pay them well can reap benefits in multiple ways. A high salary can never replace a great culture, training and development, career progression and acknowledgement/recognition. In fact, that can be the reason why in some companies (a high salary is paid mining as an example); to make up for a lack in these aforementioned areas.

In regard to wages, companies can operate more efficiently and become more productive if they pay wages above the award level. Here are four different theories on how applying this strategy may be beneficial.

Increase in Employee Effort

This suggests that employees who are paid above the award level will put in more effort than workers who are paid the award wage (or less). The attractiveness of their job increases and the opportunity cost of losing their job increases. If companies pay wages above the award level, it becomes more difficult for employees to find other jobs that pay equally well. As a consequence, they have an incentive to put in more effort in order to maintain their current job. A company that is also 'always hiring', can provide extra motivation, as employees realise that they are not irreplaceable.

Decrease in Employee Turnover

This suggests that a wage above the award level reduces costly employee turnover. The process of hiring and training new employees takes up valuable time and resources and thus increases production costs. If employee turnover decreases, some of those resources are freed up and can be used in more efficient and lucrative processes. There are many incentives at play when employees consider quitting their job: the availability of other jobs, fringe benefits, money, and so on. As in any other economic decision-making process, the benefits are weighed against the costs. If the benefits of staying outweigh the costs, the employee will stay. Also, if the costs outweigh the benefits, they may resign.

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Increase in Employee Quality

This theory suggests that 'above award' wages attract more skilled and higher quality employees. Employees who are productive and highly skilled are valuable for any firm, and they know that. This results in a self-selection process, as generally we know that higher quality workers will apply to jobs that pay above the award level, whereas low-quality workers will gladly work for award wages. Of course, this may result in some low-quality employees being paid more than they are worth. But on average, companies who pay higher wages will still end up with higher quality employees than comparable companies that pay lower wages

Increase in Employee Health

This last theory suggests that a higher salary allows employees to take better care of themselves in terms of nutrition, sleep, stress levels, etc. This increases their quality of life and results in better overall health. Fit and healthy employees are generally more productive than workers who are less healthy. In addition, they are less on sick leave and their healthcare costs are lower.

After you review these theories, a reminder: ***Culture first, together with a quality wage, will over time attract a quality team.***

For assistance in getting your employee remuneration on track, call the team at PROTRADE United.

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