When a Living Wage Becomes a Demotivator

BY SARAH DAHL

It's hard to understand how something as benevolent as paying a living wage could cause resentment within the workforce. With over half (29) of states and an additional 39 localities mandating a minimum wage higher than the legal threshold of $7.25, more co-ops are attempting to provide a living wage for their lowest-paid employees.

While this is a laudable goal on many levels, how co-ops make the transition to increased entry-level pay can drastically affect whether the change is viewed positively or negatively by the co-op's workforce. What this reception by the staff depends upon to is how the co-op addresses or ignores pay compression.

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Pay compression

Pay compression describes situations in which people with different skill levels or length of tenure are paid similarly.

There are several ways co-ops can find themselves encountering pay compression.The first is by increasing the entry-level pay to the point where it is similar to the pay for longer-term employees or those in non-entry-level positions.

Pay compression also commonly occurs when co-ops do not modify their pay scales based on changes in the labor market. As a consequence, when it comes time to hire someone externally, the compensation that it takes to get someone new to take the job may be the same amount you are currently paying someone who has been working in the position for several years.

Compression can also occur when raises aren't consistent, either within or between departments, resulting in some staff earning pay similar to those with much more experience or responsibility.

The problem of pay compression

Providing a higher starting wage to your new entry-level workers rarely poses a problem for those workers. But consider the staff who started before the wage was raised. Most of them had to work hard over a significant period of time in order to earn raises. When new staff come in to the co-op with none of that experience yet now make just as much as more-tenured staff, it can feel like the hard work and experience of those who have been around longer isn't as valued.

In other words, in trying to do a good thing by increasing the entry-level wage for new hires, some co-ops have been caught off guard by the negative response from the longer-term staff, who suddenly see the value of their experience effectively erased. Some staff can feel actively demotivated by this scenario, wondering why they should bring the benefit of their experience to situations when their pay is the same as or similar to that of brand-new hires.

Additionally, when only the bottom of a pay range is adjusted, co-ops can experience compression within a range. This means that there is less room to grow before someone reaches their pay cap. Consequently, the value of tenure and cumulative experience on the job is lessened, which can result in earlier turnover or lack of motivation to do more than the minimum required after the cap is reached.

Sometimes changes to entry-level pay are such that they leave very little distance between an entry-level position and the next higher level of responsibility. When pay is compressed between different pay levels, not only can it feel demotivating for those in the higher-level positions, it can result in a lack of willingness to move up. If staff can make nearly the same money with less responsibility, there is less motivation to take on more challenges without commensurately more pay.

What to do about pay compression

Although not as satisfying as offering a multi-dollar pay increase to your co-op's starting wage, or hitting your livable-wage-calculator target in one go, consider mitigating compression as part of your budget when making changes to entry-level pay.

Below are a few of the basic considerations to examine when adjusting any pay level:

• *Adjust both ends of the range, not just the bottom.* At a minimum, if you are increasing the starting pay, the pay cap should also increase to maintain at least some of the width of the range. While this step doesn't cost the co-op more at the time of the rollout, it does ensure that staff in the pay level being adjusted still have room to grow over time.

• *Maintain the distance between pay levels.* In many co-ops, pay structures offer higher pay levels at a set dollar amount above the starting level. Without going into the advisability of such a structure, an analysis should be carried out to at least determine the impacts on the pay levels above the entry level that is being adjusted. For example, assume the entry-level range was \$10–\$15, and the next level above that was \$12–\$17. If you want to adjust the entry level to \$12–\$16, the next level up will need to move as well—for example, to \$14–\$19. You would then need to give raises to anyone in the second level who is not currently making at least the new minimum of \$14.

• *Maintain staff compa-ratio.* This is the most equitable and generally most costly option. The premise here is that if you make adjustments to the pay range itself, each person's pay should be adjusted similarly, so that they are in the same position in the new range as they were in the old range. For example, if the old pay range was \$10 – \$15 and an employee was making \$12.50, they were midway through the range. If the range changed to \$12 – \$16, that employee would get a raise to \$14, midway through the new range.

Hybrid options

Once you know some of the common methods of addressing pay compression, your budget may dictate that you partially employ some of the methods above—or some of the following additional tactics.

• *Everyone gets an increase.* This is a common method, as it can seem more "fair" to employees. In this case, the entry-level pay is raised, then all other staff also get a raise. This could be a similar percentage increase, such as 3 percent across the board, or a dollar amount, such as a \$0.25/hour raise to everyone. When using this strategy, it is important to apply the increase to the bottom and top of the pay ranges as well.

• *Cents per year.* In this version, everyone gets a pay increase, but the amount is determined by how long someone has been at the co-op—for example, \$0.10 per hour per year: someone working five years would get a \$0.50/hour raise, while someone around for two years would receive an additional \$0.20/hour.

• *Decreasing raises.* With this strategy, everyone gets a raise, but the amount of the raise decreases the higher up the pay levels you go. For example, if the entry-level pay increases by \$1.00, those in the entry-level pay range all get a \$1.00 raise; those in the second pay level get \$0.50; those in the third level get \$0.25; etc.

• *Pay-range target.* In this scenario, the amount of the raise isn't a concern as much as how far through the range each employee is. Those in the bottom quarter of their pay range may get a larger raise, in order to get them closer to the middle of their range and separate them more from the new hires receiving the higher rate. Those in the top quarter of their pay range would get a smaller raise.

• *Compressed employees only.* This version targets limited budget dollars only to those areas where compression is the most egregious. For example, if the new entry-level wage puts new hires above existing staff, those existing staff would get a raise to be somewhere slightly above the new entry-level pay, with smaller increases to those who become compressed due to that action. The chart here gives examples:

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	Entry level	Employee A	Employee B	Employee C
Old pay	\$10.00	\$10.25	\$11.00	\$12.50
New pay	\$12.00	\$12.25	\$12.50	\$12.75
Raise amount	+\$2.00	+\$2.00	+\$1.50	+\$0.25

Timing factors

The biggest obstacle to addressing pay compression issues is budgetary. Money spent on addressing current staff's pay is less money available to put towards a living wage to new entry-level staff. To help with these budgetary issues, consider implementation in phases.

Multiple-year targets: As is the case with many municipality increases to the minimum wage, you can publicly share your aim to reach a living wage over a period of several years. This is more commonly used when changes to the entire pay scale are being made each year, as a means to avoid pay compression. Being public about your goal can help staff and your community understand that although you can't afford a living wage immediately, your aim is to continue to work towards it over time.

Address pay levels in phases: Another option some co-ops have used is to live with compression of some kind for a period of time, with the promise that it will be addressed in the future. Some co-ops feel that ensuring all people have at least a living wage is more important in the short term and that if staff feel the same, they will be more willing to accept pay compression so long as their own pay will be addressed adequately in the near future. This is most commonly used to delay addressing manager pay ranges.

Conclusion

There are multiple methods for managing pay compression when looking to make an adjustment to entry-level pay. In reality, many co-ops use some combination or partial versions of the several options described above. Ultimately, the method isn't as important as is a clear rationale for why you are making the changes that you chose—one that considers the impacts on all of your staff, not only the newest entry-level hires. •