Premium Pay Not Retaining Workers

The latest analysis of New Zealand remuneration reveals no correlation between employee pay and voluntary staff turnover.

The review of data from 35 major companies shows employees are clearly not quitting their jobs over pay issues.

The average staff turnover in the 10 highest paying companies was 17%, and in the 10 lowest paying companies, 18%. The 10 companies with the highest turnover (average 27%) paid, overall, almost exactly at the market average. So did the 10 companies with the lowest (average 11%) employee turnover. The analysis excluded sectors with traditionally high turnover, such as hospitality.

The lack of any relationship between increased pay and staff retention flies in the face of what most managers believe. Paying high in the market may attract candidates at the recruitment stage, but it doesn't reduce turnover.

This analysis is clear evidence that increasing pay doesn't increase retention. It should come as a relief to managers struggling to keep up with rising pay packets. Employers need not pay at the top of the pay scale for fear of losing people. Paying every employee above the market median is a questionable strategy and unlikely to bring the best return to shareholders or taxpayers. Companies are better off targeting their best people, with high pay going to the most productive employees.

Study after study has shown that remuneration ranks well down the list of employees' reasons for leaving a job. People leave because of management issues, not because of pay. The most common reasons for people leaving their jobs are that they don't like the manager they're working for, or they feel they are missing out on professional or personal development.

Particularly today, employees are looking more for intangibles such as career development, job satisfaction, flexibility and a pleasant work environment. Employees may well take a salary cut to move into a job which offers more opportunity, flexibility or new challenges.

Conversely, if a company is burning out its staff, is an unpleasant place to work, and offers little or no opportunity for personal development, then money may be the only reason to work there. Companies may have to pay high because they simply have nothing else to offer.

If an employee threatens to leave citing pay issues, managers should think hard before deciding to offer an increase. An employee who says they will leave unless they get a pay rise is probably going to go anyway. Even if an employer increases someone's pay to keep them, it generally makes no long-term difference. Once someone has mentally left their job, they usually go within a few months. In any event, you would have to ask yourself why you wanted to keep someone who felt like this about their job.

As long as salaries broadly meet the market, remuneration is not the big issue. In this sample, a 25% average pay difference did not noticeably affect turnover.

In the end, if the fit between the company and the employee is wrong, even the highest pay packet will lose its shine before long.