As Job Market Revives, How to Keep Workers
By Elizabeth Blackwell
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CHICAGO (TheStreet) -- It turns out that even in the workplace, money can't buy happiness. In the long run, a great salary can't compensate for a miserable boss or dead-end career prospects.

That's good news for small-business owners, most of whom haven't been able to hand out raises for the past couple of years. The best leaders have found other ways to reward their most valuable employees, whether it's offering extra vacation time, taking top performers out to lunch or simply saying "thank you" more often.

That doesn't mean you can afford to let salaries stagnate indefinitely. As the economy gradually recovers, companies are revisiting their pay rates. A survey released this week by human resources consulting firm Mercer found that 98% percent of the more than 1,000 companies surveyed plan to offer salary increases in 2011.

If you don't keep up with what the competition is offering, your best workers might walk. How do you keep them?

First off, accept that by next year, you'll have to address the salary situation. Workers who accepted salary freezes in 2009 won't be quite so accommodating if they see the business recover but don't reap some benefit.

When it comes to rewarding employees -- financially or with other perks -- what matters is that the process is both fair and transparent, says Dow Scott, a professor of human resources at Loyola University Chicago Graduate School of Business.

"You need a systematic process for pay rates," says Scott. "What will you reward workers for? What factors will you use to judge their performance?" The larger the differences in pay among workers, he says, the lower the level of employee engagement.

While you can't afford to ignore the growing pressure for raises, non-cash rewards continue to be an important factor in employee loyalty. A recent study by Scott, the human resources association WorldatWork and the consulting firm Hay Group found that nonfinancial incentives (including work-life balance, leadership and company culture) had a bigger impact on employee engagement than salary or benefits.

Keep in mind, though, that perks only work if they're the ones your employees want. The study found that only 11% of organizations frequently invited input from employees when designing their reward programs.

"If you want your employees to be engaged, you have to give them places to make a meaningful impact," says Scott. "They need a leader who solicits their input on decisions."
What better place to solicit input than your own company's compensation programs? Allowing employees to have a say in both their cash and non-cash compensation is especially important for growing small businesses, which may have started out with ad-hoc pay arrangements for friends or family members but need to put a more formal system in place going forward.

As for finding out what your workers want? Ask them. Depending on your management style, you can schedule in-person meetings or distribute written or e-mail surveys. Also keep in mind that workers may choose different rewards depending on their personality or lifestyle. Parents of young children might request time off as a reward for meeting performance goals; others might prefer a store gift card or simply extra cash. Tailoring rewards to each employee's preferences is a good way to boost loyalty. You can get employees involved in pay decisions as well. Let them have a say in whether your total allotment for compensation should be geared more toward salaries or benefits. Would they trade lower salaries for a retirement-fund match? Would they rather take on a higher-deductable healthcare plan in exchange for higher salaries?

You won't be able to please everyone. But if you make the process fair and open, it goes a good way to earning your workers' trust. One strategy Prof. Scott recommends is to set up your own compensation committee--even if consists of just a few employees from different parts of the company. "You want confidentiality in terms of the amounts people are being paid, but transparency in the process," he says.