

Employee Compensation: The Business Case

How can increasing employee compensation benefit my business?

As a small business owner, you want to treat your employees well, and that starts with their salary. Whether you're motivated by improving the employee experience, gaining a competitive business advantage, or retaining your high-performing staff, [increasing employee compensation can benefit your bottom line in a number of ways:](#)

- **Attract the best workers.** Providing a competitive wage helps you to recruit the talent you need for your business. The best workers, paired with effective operations, good training, and respect for workers' time can improve the performance of your business.
- **Improve performance and service delivery.** Workers who feel an improved sense of financial well-being and overall health are more productive workers. Of sampled employers who implemented living wages, [over 30% reported improvements in work performance and over 40% reported a boost in employee morale and customer service.](#)
- **Boost employee retention.** It's a fact that better-paid employees tend to stay with companies for greater lengths of time, [providing cost savings to businesses](#) on rehiring and retraining of staff. Across sectors, employers who implemented a wage increase, largely moving from on par with minimum wage to above it (such as Costco, KPMG, and the San Francisco airport), saw large reductions in turnover rates ([some with more than a 15% drop](#)). Employers also experienced lower rates of absenteeism and lower rates of sick pay abuse, which they attribute to having a more motivated and engaged workforce.
- **Increase employee morale.** Higher-wage workplaces tend to have higher employee morale and lower rates of theft [compared to lower-wage businesses](#). Research shows that if a business provides a wage increase of \$1, for example, they can expect to lose about 40 cents less in cash and inventory.
- **Improve company reputation and brand.** Paying a competitive wage can help your business foster repeat customers and attract new customers, generate positive publicity, and demonstrate that you're a business that [prioritizes its people](#). The Meaningful Brands report, conducted by advertising agency Havas, found that "for every 10% in meaningfulness, a brand can increase its purchase and repurchase intent by 6% and price premiums by 10.4%."

Despite the benefits enumerated above, it's important to remember that [increasing compensation won't impact payroll alone](#). It may also increase your business' payroll taxes, as well as potentially raise the amount of money you'd need to match in 401(k) and other savings benefit plans. Be sure to factor any potential costs increases that come with increasing employee compensation into your calculations to gain an accurate picture of how you'll need to allocate resources.

COVID-19 Resources

Tailored resources to help you make decisions around employee compensation at your small business, help you reopen safely, and your employees build resilience in the midst of COVID-19.

[COVID-19 Resources](#)