# 3 Keys to Determining Fair Wages for Your Team Members

Employment is like any other aspect of business. People are looking to trade their skills and resources to a company that can offer them meaningful compensation.

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When researchers at the Massachusetts Institute of Technology reported that Uber and Lyft drivers made a profit of only about $8.55 an hour, many people saw that revelation as proof that the ride-hailing innovators don't pay fair wages.

The study factored in fuel, insurance, maintenance and other costs to determine that 54 percent of drivers were making less than the minimum wage in their states. Perhaps even more shocking, about 8 percent of drivers were actually found to be losing money by working for one of the companies.

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It's perfectly reasonable to see that information and assume that Uber and Lyft are taking advantage of their drivers, but a truly "fair" wage is not as simple as it might seem.

Startups frequently want to offer strong candidates the moon, but limited budgets and resources can prevent that dream from becoming reality. Even large corporations have trouble balancing employee pay with the value team members contribute to their bottom line. The bigger a company gets, the more likely it is to have employees dedicated to administrative

tasks — including HR, data entry or public relations — that don't provide a clear return on investment.

On top of this, attracting top graduates could require offering competitive wages that surpass those of tenured employees — which creates a risk of alienating experienced team members. So, given these issues, what exactly *is* a fair wage?

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## Compensating for cultural contributions

Although every successful company has measurable key performance indicators like production and quality, those indicators are not the only way to gauge an employee's contributions. Someone could easily surpass those metrics while creating a toxic work environment, for example. And overpaying toxic employees creates hostility and resentment, causing other employees to inevitably jump ship. Research from the Harvard Business School found that toxic employees cost businesses an average of $12,489.

While companies are wasting money on these team members, there are other employees whose contributions are less obvious. They might be indispensable to a company's culture, for instance, raising everyone else's productivity while not showing much on paper for themselves.

It's up to the company's management and owners, then, to ultimately decide what the company values. In many ways, standardized annual increases (or other payment based on tenure) are completely unfair. If anything, veteran employees are more likely to stagnate and oppose new processes that might benefit the business. That's clearly more of a burden than a benefit.

# Creating a competitive market

Employment is like any other market exchange. Wages are value-for-value pay for performance. Each party offers something the other party wants, accepting in payment something he or she values more. It's the same reason we're willing to pay $4 for a bottle of water at an airport or a stadium – we value the water more than the money.

To convince people with specific skills to share their time and expertise, employers must offer compensation that's competitive with the local market. Customers generally have a better experience shopping at Costco than Walmart, partly because Costco's average hourly wage is $12.92, compared to Walmart's $9.41. Costco also offers a superior benefits package that enables it to retain highly skilled employees. There is, nevertheless, no universally "right" way to structure a business or compensate employees.

Instead, it's important to figure out what makes your team members tick. Value is subjective, and each employee's preferences will vary. Some people aim for jobs that pay the most, some want ownership in the business and others are looking for a certain kind of work environment.

Startups are good at offering non-monetary payments – attractive benefits and perks – because they have to if they want to retain employees. That doesn't always mean they understand that different people are attracted to different forms of compensation. So, again, what's a "fair" wage?

There are three important steps to ensure you're offering employees one:

**1. You've tailored a compensation package to each employee.** When creating product offerings and business models, entrepreneurs excel at performing market research and personalizing offers. This mindset should carry over to

employees, too.

The *2018 Compensation Best Practices* report by PayScale found that top-performing organizations it studied conducted ongoing employee research, which included market and individual job studies. The message? It's imperative to understand the job market to retain top-performing employees.

**2. Benchmark with other firms.** Employees inevitably will check how their pay stacks up against their industry peers', so companies need to stay on top of any trends. If your company pays workers $15 an hour, but the going market rate is closer to $20, it's likely you could lose employees who are (justifiably) focused solely on money. Keep an eye on your local competition to ensure you keep pace.

The U.S. Bureau of Labor Statistics maintains a database of salary data by industry and location. It's a great place to determine how much workers earn in all regions of the country. The internet is awash with various salary comparison tools, so be sure to use them.

**3. Determine employee-opportunity costs.** Money makes the world go around, but it's not everyone's sole motivator. Many companies offer perks that draw employees in but are not necessarily a dollar-for-dollar cost.

Netflix, for example, offers unlimited parental leave to its employees. And, Airbnb provides an annual $2,000 stipend to encourage employees to travel and stay at its listed properties. These perks and incentives cost the companies less than the value received, and they can be a major asset for recruiting and retaining top talent.

Overall, employment is like any other aspect of business. People have limited time and are looking to trade their skills and resources to a company that can offer them meaningful compensation. While Lyft and Uber drivers are not getting rich, there are plenty of people eager to do the job.

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So, ask your next driver why he or she does it, and you will likely hear tales about the flexibility to work around a busy schedule; or the ability to earn money during time that otherwise would be wasted: or the opportunity to just get out of the house. For some people, those advantages may actually be worth more than the extra dollars they could make in a less flexible work environment.

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