

**Minimum wage is a divisive issue. Let's deliberate several concepts.**

***The question is, "How do we reconcile a pay-the-job versus pay-the-person mentality?"*** Should there be a



minimum wage for certain stakeholders? And how does this pertain to the principles of lean manufacturing or hiring strategies at various levels of an organization?

A living wage "position" – pay-the-person – indicates that you take care of the labor force with a higher minimum wage. Increasing minimum wage ends up *NOT* paying-the-job or what the job is really worth. This pay-the-person ideal may not or can't fit the constructs of the business model and cost structure. It

also does not preclude the survival of the company. Profits would necessarily drop unless other adjustments are made in price or costs. The ability to compete in the market may be compromised and may necessitate layoffs unless management can run the company more efficiently to make up the difference if that is an option.

**You don't get an increase in experience and productivity by just "wanting" to increase minimum wage – pay-the-person – for living wage purposes. The costs have to be covered somehow.**

Typically, employees get a 3% yearly wage increase, 2% for more experience and 1% for aggregate productivity growth and there is a motivation factor to consider. Future raises could be negatively affected by this factor because the wage increase is not earned – intrinsic motivation declines. It also reduces labor mobility because someone may become more entrenched and can't afford to move on versus another company not paying a higher minimum wage. A lower minimum wage is historically viewed as a stepping stone to a better higher wage position, this dynamic could be reduced.

***From another business perspective,*** paying a living wage would be harder for an entrenched business versus a start-up business that includes a living wage strategy at the beginning. Costco comes to mind as a paying a living wage type of company, but it was built in at the start. Its cost and pricing structure have been built up around this strategy.

Another example of where a change in labor strategy benefited all involved was Ford Motor Company back in the early 1900's. It increased labor wages (angering many in the industry), but Ford expected to gain even more from reduced employee turnover costs (more loyalty and long-term knowledge capture) to increase productivity, output and market size. This is a classic example of how the experience curve works across the board. The strategy paid for itself and more. It was a major strategy that put the company on a completely new trajectory, highlighting the importance of a labor strategy, but it was a pay-the-job mentality. There were expected gains to be made and they happened, employee turnover was reduced.

At the other end of the argument, if a fast food restaurant is forced to increase minimum wage, pay-the-person, they lose their business model and are now competing in another arena – higher cost restaurant food versus low cost fast food. Someone is probably going to go out of business because they are entering a market segment they are unfamiliar with and have not competed in before.

Another way to provide higher wages might be to use "Lean Manufacturing" type policies – a no layoff policy, reassign after monetary gains are made in efficiencies or new processes. It is a way to improve productive capability, lower costs, improve quality, etc. but by doing so it proposes reassignment, not layoff, of people that are affected by the efficiency gains. It does not arbitrarily increase wages, but shares the gains. It provides a

better way of supporting the importance of the various stakeholders, human capital, as a way to run a business for the long-term keeping needed experience within a company.



Both “positions” require an environment of innovation, interdependence and self-reliance to improve oneself or the company no matter what the wages may be. People still need to be intrinsically (hopefully this one) and extrinsically motivated to do their best job.

So, labor is a human commodity from one aspect and at the same time a critical resource of organizational knowledge, capabilities and skills. Both “positions” want to be kept around for long-term survival and improvement.

**The bottom line** is that employee wages are really a function of the over-riding business model and having an outside force dictating and controlling wage levels distorts free market operation by taking the price mechanism for labor off the table and making the job of competing in a free and open market more difficult and less efficient. It lends itself to applying more automation and less hiring to overcome this market distortion, especially at entry level positions. And as a society, having a job should be a number one priority; otherwise, the system collapses because aggregate buying power would decline, tax collection reduced.

The pay-the-person trend would be to reduce employment by automating or eliminating low-wage jobs. It takes away potential employment from people who may not have the capability or don’t want to operate at a higher technical or responsibility level. It could facilitate a higher level of government dependence due to higher unemployment and become permanently built into our state and federal welfare systems.

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[Hikes in the minimum wage have other effects besides just giving low-income workers a raise. Important new research suggests that minimum wage increases in the late 2000s resulted in the loss of some 1.4 million American [jobs](#) and hurt **unskilled workers** most of all.

A [new study](#) by researchers Jeffrey Clemens and Michael Wither from the University of California San Diego found that low-skilled workers were the most adversely affected by minimum wage increases, despite the fact that this was the group that such legislation sought to [help](#).

The study shows that between July 23, 2007 and July 24, 2009, the federal minimum wage rose from \$5.15 to \$7.25 per hour. During this period, the employment-to-population ratio declined substantially – by 4 percentage points among adults aged 25 to 54, and by 8 percentage points among those aged 15 to 24.]

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In the long run, it would probably be better to have a low minimum wage floor with the benefit of more wage level options, so that each person in society can naturally find the level that helps them the most based on their individual motivation, capability, situation and interests...keeping wage mobility up.



Again, the business model must win in the end, otherwise, what’s the point of a free enterprise system?

## So, what strategies could be used in the areas of hiring and pay?

As a general rule, at the management level I would tend to pay the person, not the position. At the technical and hourly levels, depending on the skill required, I would tend to pay the position, not the person.

In all cases I would utilize sophisticated testing and selection methods and at the technical and hourly levels, extensive training systems.

### Management positions:

Always hire at least from the top 20% of the general population and in most cases, hire above that level. Identify these people with extensive assessment batteries that are highly predictive of success. Therefore, I would be willing to pay a premium for exceptional performance.

### Technical positions:

Case 1: By utilizing a very predictive assessment battery, hire people with high mechanical/technical insight, but with limited experience by running them through good training. Then you could hire people who were better at their jobs than the competition but paying them less than rivals because the people had less experience. Monies could be spent in other critical areas for competitive advantage. Once the people gained experience sometimes you might lose them, but you have the capability of increasing wages, promoting them if positions are available via growth, someone else leaves or replacing them quickly. From a competitive perspective, if you lose them, that meant whoever hired them is probably paying them more than you were.



Case 2: By utilizing a very predictive assessment battery, hire fewer people with high mechanical/technical insight and pay them for their experience and knowledge and allow them to multi-job for higher productivity. You would have better people who were highly paid, motivated and productive, especially if strategic capabilities are needed in those areas.

## Hourly personnel:

In previous generations, hourly people were paid for their physical attributes more than their mental abilities.



There were some very excellent assessment batteries for things like hand-eye coordination and physical strength. Nowadays, many of these types of positions have been consolidated with technology requirements. So, it may require both. New assessments are required based on physical and mental attributes or perhaps technical people are now charged with the physical levels of new combined positions. It can go either way.

So, one goal may be to hire inexperienced people because you can get them for less money than experienced people. This might be a competitive advantage if your competitors only hire experienced workers. Therefore, if you have good training systems, you should be able to hire competent candidates for less money than the competitors. People might be willing to come to work with you because you hire inexperienced factory workers and few other firms were willing to do that. Of course, the opposite strategy could be used as well depending on the nature of a job as to physical and technical requirements.

So, one strategy is to hire fewer people, but better people at the technical and management level and pay them well.

Or, hire more inexperienced people at the technical and hourly levels who were willing to work for less money to gain the experience, which in turn, would get them better jobs in the future either in-house or moving on.

If you find exceptional individuals, I would move them up to supervisory and management level positions. In that case you are paying that person, not the job. ***I'm always willing to adjust and pay for high quality people!***



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