Where Have All the Workers Gone? – How to Survive the Labor Shortages of 2021

I'm writing this the morning of August 6, and the monthly jobs report from the USDOL has just been issued. Last month's report was somewhat underwhelming, so this one has been eagerly awaited. It has lots of good news:

- The economy added over 943,000 jobs in July, well ahead of economic forecasts. The biggest gains were in hotel, restaurant, and public school positions.
- The US unemployment rate is now 5.4%, down from 5.9% in June. That is a significant monthly drop.
- Average earnings are up 4% from July, 2020.

Despite all this positive news, if you are an employer trying to hire, you are most likely not smiling. 2021 has brought a significant labor shortage that has impacted employers across industries and occupations.

In June, the Washington Post published a list of the occupations facing the most critical labor shortages. Among the top ten:

- Sawmill workers (#1)
- Long haul truckers
- Veterinarians
- Mental health practitioners

Not exactly a homogeneous list, is it? And while the labor shortage is certainly challenging, there are some strategies you can adopt to help you meet those challenges.

1. Don't Blame It on COVID

COVID certainly knocked the rug out from under the economy, but many of the factors influencing current labor shortages existed before the pandemic. The working age population of the US has been shrinking for a while now, and the lack of affordable, available child care and parental leave has kept many parents out of the workforce.

Record stock market results and increased housing prices have influenced many older workers to re-assess their financial positions and decide to leave the workforce.

And don't assume this will all go away when COVID is "over." With case increases on the rise almost everywhere, "over" doesn't seem imminent.

Extended federal unemployment benefits, scheduled to expire next month, have been widely blamed for being an incentive to stay home. However, over half of US states have already ended this extension with no reported impact on availability of qualified workers.

2. Understand Salary Compression – And Take Steps to Address It

If you haven't heard of salary compression – or your organization hasn't experienced it – consider yourself fortunate. It occurs when the salary relationship between two or more employees is too small to be equitable. It occurs across industries and impacts jobs at all levels, although right now the impact on low wage workers and their team leaders and first-line supervisors is particularly significant.

A common example involves a new hire that demands more than current employees performing the same work. If you really need this new hire, you pay them what they are asking and then figure out how to manage that internally.

There's no easy, single solution to resolve this situation. Some strategies that do help include:

- Standardizing pay practices and eliminating out of cycle salary increases
- Creating promotional paths and career ladders for experienced employees
- Attracting new hires with a combination of base salary plus signing, performance, and/or attendance bonuses to minimize internal equity issues

3. Out with the Old

It's not too early to discard some out of date pay policies that simply don't work in the current environment. Now is the time to get rid of annual reviews of salaries and pay policies (once a year isn't often enough), across the board pay increases of 2%-3%, and giving out of cycle increases in response to individual employee "asks."

Instead, it's time to think about year-end planning. Some things to focus on now include:

- Analysis of current pay levels to identify both external competitiveness and internal equity issues
- Research of market competition, including new employers in the area (they frequently offer very high starting salaries to lure experienced workers), employers expanding facilities, and changes to competitors' salary policies
- Analysis of turnover and recruitment statistics to determine why employees leave – and where they go – and why prospective employees refuse offers
- Progress toward achievement of 2021 business objectives, in anticipation of payout under existing incentive plans

4. Retain – So You Can Recruit Less

One of the best ways to avoid the recruiting headaches of 2021 is to keep the employees you have. That's not an easy task – so many people have left their jobs this year that economists have dubbed this the "great resignation."

So what can you do to retain employees? An early 2021 Prudential Pulse of the American Worker survey reports that 26% of surveyed employees plan on leaving their jobs this year. Of those, 80% cited lack of career advancement as a reason, 72% said they were rethinking their skills and careers, and an overwhelming number wanted more flexibility in scheduling and Work from Home options. These, of course, are in addition to pay and benefit and lack of good supervision issues that always make the list of why employees leave.

5. Understand Your Competitive Markets

We're often asked by clients to "find out" what a specific competitor in the same industry pays for a certain job. Organizations typically don't volunteer that type of information, but even if they did, there wouldn't be a lot of value in it. Yes, you have competitors in your industry, but you most likely have lots of other competitors as well. If you hire entry-level employees, you are competing with big box retailers. And your accounting, finance, human resources, customer service, and IT employees can pretty much pack up and go to work anywhere.

A few years ago, a regional banking client lost their ENTIRE accounting/finance department (think CFO through accounting clerks) to a state agency that opened an accounting office in the area. It's doubtful the bank thought of a state agency as a competitor, and that certainly was a tough lesson learned.

All of this can seem overwhelming. We at Affinity HR Group are always here to help you get started. And recognizing your employees and thanking them for their contributions is another good place to start.

By Susan Palé, CCP, Vice President for Compensation – Affinity HR Group, Inc.

Susan Palé is a contributor for Affinity HR Group, Inc., IIAV's affiliated human resources partner. Affinity HR Group specializes in providing human resources assistance to associations such as IIAV and their member companies. To learn more, visit www.affinityHRgroup.com.