SMEs under pressure to boost pay, but how much can your businesses afford?

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Businesses are now under increased pressure to raise salaries by 3-6% this year after handing out small pay rises or even freezing remuneration during the global financial crisis, the latest Hays annual salary guide reveals.

The survey comes as Westpac has struck a deal with the Finance Sector union to increase employee pay by 10% over 26 months, in an agreement that will also see staff allowed to spread their 38-hour working week over weekends.

The Hays survey, which received questionnaire results from over 1,800 businesses, found 62% only increased salaries by less than 3% last year, and are set to face increasing pressure this year to boost salaries higher than the inflation rate.

Wage pressures are also set to increase when new awards come into effect next month, with a rise in the minimum wage also expected.

The survey found 43% of businesses only intend to increase pay by less than 3% this year, but 47% will lift salaries by between 3-6%. About 8% of businesses intend to increase pay by between 6-10%, while 2% intend to increase salaries by over 10%.

Larger increases are most likely in the professional services and public sector, with 54% and 51% of employers in these industries intending to lift salaries by between 3-6% respectively.

The firm expects pay packets to increase during the next six months as companies rebuild HR teams and secure the best talent ahead of a skills shortage.

But Sophie McDonald, co-founder of recruitment firm Skye Recruitment, says SMEs shouldn't be dragged back into a pre-financial crisis mindset and throw inflated salaries they can't afford at talent in order to keep them on board.

"The important thing is that businesses don't retract into that mindset, especially in sectors where it's hard to bring on talented staff. A lot of companies find themselves under pressure to find the right people, but outbidding isn't the answer."

McDonald says businesses will be under pressure to increase salaries, but they also need to be sure they are paying the market rate and are being competitive without entering a bidding war.

"Usually the salary increases are around 4% in Australia, which was the normal rate before the financial crisis, but in the past year or so the average we've seen has been around the 1.9% mark."

While McDonald says businesses need to be careful about providing salary increases beyond their capabilities, she also says SMEs need to be sure they are providing the best rate for the staff they have based on experience.

Additionally, she says some Gen Y staff may be expecting unrealistic salary increases of about 10%, and employers need to be careful about explaining why such an increase won't be heading their way.

"I think companies need to look at attracting or retaining staff through ways not involving financial compensation, and every company needs to be very clear about what their value proposition is and what they can offer staff if a larger pay increase isn't on the table."

"That could be in the form of extra training, career advancement, or anything like that inside the company. Businesses need to be clear on that and not necessarily rely on monetary fallback. Attitudes have changed and employees may want something different."

The survey also provided some good news for job seekers, with 45% of businesses expecting their staff levels to increase over the next year, with 60% of those intending to take on more full-time staff.

Just under 30% said they would employ temporary staff and contractors, with about 25% saying they would take on part-time employees.

However, the survey said candidates will be looking for higher salary packages when seeking jobs, and employers should be prepared for the shift in power.

"Candidates who accepted lower salaries during the downturn will move for more attractive salary packages. We have already seen this in Canberra where employers are increasing IR/ER salaries to attract the required experience," the survey found.

But the report also found while employees are in a stronger position to demand increased salaries, employer expectations will be much higher than during the financial crisis as businesses make the most of a strong recovery.

"While candidates are in a much stronger position than they were a year ago, the market still remains competitive. Be aware that employer expectations are higher than they have been in the past three to four years."

"Prepare thoroughly for interviews, spend time writing a detailed resume, and consider carefully every job offer. Do not expect a huge salary increase. Instead look for a role that will add to your suite of skills and offer opportunities with the right organisation."

It seems the salary pressure has already begun. Westpac has agreed to give 26,000 employees a 10% pay rise over the next 26 months in an agreement with the Finance Sector Union.

Additionally, parental leave entitlements will be increase by one week to 13 weeks, with staff to also have access to independent arbitration to resolve disputes.

Subject to approval from Fair Work Australia, the deal will provide a 2% increase immediately, followed by a 4% increase in January 2011 and another 4% increase 12 months after that.

Hays managing director Asia-Pacific Nigel Heap said in the firm's survey that companies will be looking to increase pay levels as the economy recovers.

"There is new optimism in the market with 67% of employers surveyed predicting the economy will strengthen in the next six to 12 months. This is in stark contrast to this time last year when only 6% thought the economy would improve.

This increased confidence is further illustrated by 45% of respondents intending to increase permanent headcount and 22% expecting to increase their use of temporary and contract staff. A very different picture to this time last year."

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