

Salary differentials

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Salary differentials refer to the differences in salary between people with the same skills but in different market industries or locations. It also refers to the difference in salary between employees in the same company but with different skills.

What causes salary differentials?

[Salary differentials](#) arise due to different reasons. It is important to know and understand the reasons that lead to these differences

Occupational Differences

Different occupations require different qualifications and skills and salaries are fixed on these [skills](#). Occupational differences induce employees to undertake more challenging tasks. They often inspire workers to develop their talents in expectation of higher earnings by providing an opportunity for young people to become more receptive to education.

Inter-Firm Differences

These are wage differences between employees from different companies or plants in the same place that have the same skill set. These are the product of variations in labour quality between firms, labour market imperfections, and differences in the efficiency of machinery, supervision, and other non-labour factors.

Inter-Area Differentials

Inter-Area Differentials occur when workers of the same business and occupational community who live in different geographic areas are paid differently. These also represent the [labour demand and supply](#) in a specific region. Should there be an overabundance of workers with a specific skill, the market for that skill would soften, lowering the price of labour. As a result, if such skills are in short supply, individuals with certain skills should find employers willing to compete for their services with higher pay.

Inter-Industry Differentials

These occur when employees in the same profession, in the same place, but in different industries are paid differently. Higher-wage industries often have a greater proportion of skilled employees, while low-wage industries often have a large proportion of unskilled workers. It may also be a function of the degree of [unionization](#), the business structure, the willingness to pay, and the industry's developmental stage.

Personal Wage Differentials

These result from the differences in the personal characteristics (such as sex or age) of the employees in the same area and occupation. It is well known that such differentials exist and men earn higher than women. These differences result in part from labour market discrimination and in part from productivity inequalities, both of which can be traced back to previous discrimination in the labour market and education. Even though the "Equal pay for equal work" has been recommended by various labour committees, this principle has never been fully implemented as in some occupations women employees are paid less than men. Women still earn approximately 75 – 80% of the level of men. Also, there are differences in human capital growth, especially formal education, because women can invest less in their development than men.

Salary Differentials In the economy

Salary differentials serve essential economic functions such as increasing labour productivity and attracting workers to various jobs. They represent differences in productivity, management performance, human resource use, and other factors since most employees are mobile to maximize their earnings.

They can be used to attract productive employees, [maximize employee loyalty](#), improve skills and expertise, maximize the use of human capital, and maximize productivity. Salary differentials decide the direct allocation of manpower among different units, occupations, and regions to maximize national output. As a result, these differences encourage better human resource distribution, labour mobility across countries, and other activities.

They are critical in a planned economy for regulating wages and developing national pay policies by

allocating skilled human resources on a first-come, first-served basis. Human resource creation includes the acquisition of new talents, expertise, and other abilities.

Shortages of technical and professional workers are not only a concern for companies, but they also trigger bottlenecks in achieving expected objectives. As a result, salary differentials are attractive to some degree from the standpoint of national interest. As a result, they would almost certainly become an integral part of national wage policy. It is both impractical and undesirable to have a full uniform national pay policy.

Salary Differentials in the society

Society is divided into a variety of non-competing working groups. In some areas, such classes are determined by social status. Family finances determine the likelihood of getting training for better-paying jobs. As a result, genetics, climate, training, and sex all play a role. Workers belonging to different social statuses earn different salaries.

Also, some societies still believe in women being a minority and therefore Most of the women tend to get low paying jobs. In contrast, women are often crowded out of higher-paid jobs through discrimination or are discriminated against in terms of promotion. Females often make up a very small percentage of senior jobs.

Conclusion

Salary differentials will always have a vital role in the economy as organisations that need to maximise productivity and profits will use them to get talented and skilled workers and also it encourages the less skilled to improve their skills to earn higher pays

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