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- Contribute to business-strategy development that leads to superior organizational performance.
- Provide an outlet for scholarly total rewards writing and research.

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06 Current Thinking on Counteroffers: A Survey of Rewards and HR Professionals
By Dow Scott, Ph.D., Loyola University Chicago, and Thomas D. McMullen, Korn Ferry Hay Group

Although most companies make counteroffers to employees, few of them have a formal strategy or policy for doing so. For those that do, most managers do not understand the policy or practice. Findings from a national survey of HR and rewards professionals report how organizations respond to employees who received job offers from other companies. Based on these findings, a counteroffer strategy, a formal process for assessing the utility of making a counteroffer, and a process for optimizing effectiveness are proposed. Retention strategies that minimize the frequency of making counteroffers are also discussed.

19 The Science of Pay-for-Performance Systems: Six Facts That All Managers Should Know
By Jason D. Shaw, Ph.D., The Hong Kong Polytechnic University, and Atul Mitra, Ph.D., University of Northern Iowa

Financial incentives have been found to have a moderately strong impact on job performance and creativity and do not hurt intrinsic motivation. Based on the current body of scientific evidence, the article offers six facts about developing and implementing effective pay-for-performance systems. It also proposes specific managerial implications of these issues.
‘2017 Global Talent Trends Study’:
Thinking Differently About How to Attract Talent
Edited and compiled by WorldatWork staff and Stacy Bronstein, Mercer

Talent scarcity, gig economy, technology and job evaluations. These topics are on the minds of business leaders and HR professionals who are seeking or identifying ways to prepare for an evolving workforce. Authors of Mercer’s “2017 Global Talent Trends Study” share insights from their research on how organizations from around the world are reacting to a rapidly evolving work experience and what HR professionals should be doing to get ahead of the curve.
Current Thinking on Counteroffers: A Survey of Rewards and HR Professionals

Developing a counteroffer strategy and a related set of administrative guidelines is a timely and essential topic for several reasons. First, a confluence of economic, technological and social forces is reshaping work and employment relationships in a very tight labor market. Unemployment rates have dropped to less than 4.5%, a level that has not been seen since the 2008–2009 recession. Unemployment rates are even lower for science, technology, engineering and math (STEM) jobs and leadership positions, making it even more difficult to attract and retain employees in these jobs.

Second, today’s workers are less tethered to their employers than they were even five years ago. Most professional employees have LinkedIn accounts that identify their expertise, experience, education and career history, thus significantly increasing their visibility to recruiters and potential employers. Additionally, many professionals increasingly work at home, a factor that likely reduces the quality of personal relationships that might anchor them with their current employers. This dynamic makes changing jobs easier than ever before.
Many employees literally do not have to leave home to take a new job in the same local area or anywhere in the world. Further, alternative forms of employment, as represented by the gig economy (and part-time, contract and consulting work), reinforce a transitory nature of employment where commitments are, by law, kept at arm’s length.

Third, employers are under increased pressure to use lean employment models. This has often resulted in a shallower pool of internal replacement talent for key positions. With employers continuing to reduce head count and replace jobs with technology and other, more efficient processes, virtually every remaining employee is critical. Finding a replacement, either internally or externally, with sufficient knowledge to fill a position is challenging.

Finally, the very nature of counteroffers represents a risky strategy. Failure to exercise sound and disciplined judgment in making counteroffers can lead to turmoil for companies in an environment that has become increasingly competitive for talent. Reactionary and inconsistent decisions can have long-term negative effects on the perceived fairness within the organization and the integrity of its rewards program. Counteroffers can often become a widely known employee strategy to extract a better deal from their employers.

This article presents findings from a national survey of rewards and HR professionals who shared their counteroffer policies and practices, assessed their effectiveness and outlined how they minimized the need for counteroffers by more effectively retaining key talent. The findings are examined in light of a similar study conducted more than 10 years ago (Scott, McMullen, and Nolan, 2005).

**COUNTEROFFER STUDY**

One hundred twenty rewards and HR professionals from primarily mid- to large-sized organizations completed a counteroffer practices survey administered by Korn Ferry Hay Group in April 2017. As shown in Table 1, respondents represented organizations of varying sizes with earnings ranging from less than $250 million (35% of organizations) to more than $1 billion (38%). Most respondents reported turnover rates either below or comparable to industry norms (36% and 47%, respectively). About half (56%) reported that their company performance was comparable with others in their industry, with 24% saying they performed above industry

<table>
<thead>
<tr>
<th>Organization Size of Survey Participants</th>
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<tbody>
<tr>
<td>Less than $250 million</td>
<td>35%</td>
</tr>
<tr>
<td>$250 million to $500 million</td>
<td>13%</td>
</tr>
<tr>
<td>$500 million to $1 billion</td>
<td>14%</td>
</tr>
<tr>
<td>$1 billion to $2.5 billion</td>
<td>13%</td>
</tr>
<tr>
<td>$2.5 billion to $5 billion</td>
<td>9%</td>
</tr>
<tr>
<td>$5 billion to $10 billion</td>
<td>6%</td>
</tr>
<tr>
<td>$10 billion to $25 billion</td>
<td>4%</td>
</tr>
<tr>
<td>$25 billion to $100 billion</td>
<td>5%</td>
</tr>
<tr>
<td>More than $100 billion</td>
<td>1%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: 2017 Counteroffer Survey
norms and 20% below these norms. Finally, most respondents agreed that employee retention was a concern and challenge for their organization. Respondents reported that they agreed or strongly agreed that employee retention of key talent was a major concern for senior management (72%). They also expected a substantial number of key employees to search for a better job during the next two years (54%), and reported that retaining managerial and professional employees who were high performers or who had critical or key skills was a significant challenge in their organization (48%). Only 21% and 26%, respectively, disagreed or strongly disagreed with these statements.

### COUNTEROFFER STRATEGIES AND PRACTICE FINDINGS

The findings indicate that counteroffers are offered rarely (54%) or seldom (33%) but virtually all employers extend counteroffers. (See Table 2.) However, regardless of the frequency, the management of counteroffers is primarily ad hoc and situational. Only 3% of respondents indicated they had a formal counteroffer policy. Eighty-four percent said they did not have a policy but decided each situation by its merits, and 13% said they had an informal policy that provided general guidance. The implication is that most organizations have no established formal counteroffer strategy, either in terms of identifying the types of situations that may warrant these offers or a process for determining the composition of such an offer. Consistent with this lack of policy or guidelines, only 3% of respondents indicated that managers were well-versed in the organization’s counteroffer policy.

Still, the use of counteroffers may not be as ad hoc as the data suggest since the HR function in most employers is involved in the determination of counteroffers (60%), and many at least solicit human resources’ input to management (24%). Only 6% of respondents said that human resources had no active role in the determination of counteroffers.

Counteroffers are not given uniformly to all occupations, jobs or employees. (See Table 3.) Executives, managers and professionals are the roles most likely to receive counteroffers, while sales, support staff and production workers are least likely to receive them. However, one should note that lower-level employees were more likely to receive counteroffers in 2017 than they were in 2005, when

<table>
<thead>
<tr>
<th>TABLE 2</th>
<th>Frequency Counteroffers Are Made</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>%</td>
</tr>
<tr>
<td>Never</td>
<td>4</td>
</tr>
<tr>
<td>Rarely (less than 5% of those who received offers)</td>
<td>54</td>
</tr>
<tr>
<td>Seldom (5% to 25% of those who received offers)</td>
<td>33</td>
</tr>
<tr>
<td>Often (25% to 50% of those who received offers)</td>
<td>5</td>
</tr>
<tr>
<td>Frequently (over 75% of those who received offers)</td>
<td>1</td>
</tr>
<tr>
<td>Don’t know.</td>
<td>3</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: 2017 Counteroffer Survey
Regardless of employee groupings, counteroffers are typically made to employees who are both top performers and in key or critical positions (49%), further reinforcing a rather selective utilization of this retention tool. (See Table 4.)

Admittedly, employees who contemplate a move to another organization or who have resigned may not be entirely honest about their reasons. However, since HR and rewards professionals often administer the employee’s exit from the organization, they are likely in a strong position to know why the resignation is taking place. As shown in Table 5, promotions and increased job responsibilities, followed closely by career-development opportunities and base pay, were the reasons most often given as to why employees considered leaving or actually resigned. Incentives/total cash opportunities, management or leadership, and work culture/environment were also considered important reasons. Employee benefits programs were considered the least important reason.

Given that respondents thought promotions, increased job responsibilities and career development were the most important likely reasons an employee chose
to leave, the core element of a counteroffer — an increase in base salary for the same job — seems incongruent. (See Table 6.) The opportunity to work for a new manager or supervisor was offered infrequently as a reason for exiting the organization.

Most respondents rated their organization’s counteroffer practices as either not effective or marginally effective (combined 73%). The remaining 27% rated their counteroffer practices as effective or very effective. These findings indicate that there is considerable room for improvement in counteroffer strategy, policy and practice.

In terms of employee retention, if the counteroffer was accepted, respondents reported that 23% of their employees seldom left the organization within the next three years, 30% may leave in the next three years, 20% are likely to leave in the next three years and 27% usually leave within the next three years. This suggests that counteroffers are not necessarily associated with employee intentions to remain with the company. Although managers may question the loyalty of employees who accept counteroffers, the findings indicate that the relationship with the employee usually is not damaged (59% said it usually did not change) and generally stays on course. Twelve percent of respondents believed the relationship worsened, and 16% believed that the relationship improved.

In summary, the findings indicate that:

- Most organizations provide counteroffers but typically do not have strategies, policies or documented processes to administer them.

---

**TABLE 5  Why Employees Consider Outside Job Offers**

<table>
<thead>
<tr>
<th></th>
<th>Very Great/Great</th>
<th>Some Extent/ Little Extent</th>
<th>Not at All</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base pay</td>
<td>72</td>
<td>27</td>
<td>1</td>
</tr>
<tr>
<td>Incentive/total cash opport</td>
<td>59</td>
<td>36</td>
<td>5</td>
</tr>
<tr>
<td>Benefits program</td>
<td>14</td>
<td>68</td>
<td>18</td>
</tr>
<tr>
<td>Promotions to increase job responsibilities</td>
<td>79</td>
<td>19</td>
<td>2</td>
</tr>
<tr>
<td>Career-development opportunities</td>
<td>73</td>
<td>23</td>
<td>4</td>
</tr>
<tr>
<td>Feelings of being fairly treated and respected</td>
<td>38</td>
<td>52</td>
<td>10</td>
</tr>
<tr>
<td>Management or leadership</td>
<td>53</td>
<td>44</td>
<td>3</td>
</tr>
<tr>
<td>Work culture or environment</td>
<td>45</td>
<td>47</td>
<td>8</td>
</tr>
<tr>
<td>Quality of family or home life</td>
<td>39</td>
<td>57</td>
<td>4</td>
</tr>
<tr>
<td>Mean</td>
<td>N/A</td>
<td>41</td>
<td>6</td>
</tr>
<tr>
<td>Standard Deviation</td>
<td>N/A</td>
<td>47</td>
<td>15</td>
</tr>
</tbody>
</table>

Source: 2017 Counteroffer Survey
Offers are typically reserved for top performers, high potentials and those in key jobs.

HR or rewards departments are typically involved in creating the counteroffer.

Most organizations see their counteroffer practices as marginally effective but indicate employees are reasonably likely to accept a counteroffer and this does not jeopardize the ongoing employer-employee relationship.

**CREATING AN EFFECTIVE COUNTEROFFER STRATEGY AND PROCESS**

The results from this research indicate that while virtually all organizations make counteroffers, few have developed a strategy or formal policy that is understood by management. Thus, it is not surprising that only 26% of organizations assess their counteroffer strategies, policies and practices as effective. Based on the findings from our research and our consulting experience, we suggest that developing
some principles and guidelines around this topic will lead to counteroffers being used more effectively, efficiently and judiciously. We suggest the following:

**Develop a strategy.** First and foremost, senior management needs to formulate a set of principles that outlines the conditions under which a counteroffer might be made. These principles should indicate which types of roles and employees are eligible to receive counteroffers. The level of transparency of counteroffers can have important ramifications among management and employees regarding perceptions of fairness and the inherent risk in accepting those offers. Finally, parameters should be provided for what can or will be offered to employees. These often range from improving current base salaries, providing stock options, retention bonuses, increased job accountabilities and related promotion increases or a new supervisory relationship.

Managers often only become aware of a competitor’s offer when the employee announces that he/she is considering accepting the job offer or after the employee tenders his/her resignation. As such, an organization’s response to the employee leaving must be made quickly (often within one to two days) if a counteroffer is going to be successful. A set of counteroffer principles and related administration guidelines will significantly reduce response times and help ensure that decisions are more consistent concerning the appropriateness of a counteroffer. Organizations that are more reactive increase their risk of losing valued employees due to a slow response time and poorly thought-through responses.

Several considerations should be taken into account in creating a counteroffer: employee performance; critical nature of the position held; and the ability to replace that individual. Ideally, this information is systematically collected and assessed routinely by the organization. Thus, this assessment should occur quickly and a determination made if the employee is: 1) a “must retain”; 2) a “would-like-to retain”; or 3) an employee who, by leaving, frees up a position to promote or hire a more qualified individual for the job. If the employee falls into the category of a “must retain” or “would-like-to retain,” then additional information should be collected in order to formulate a strategy for retaining this person.

**Root-cause assessment.** The ability to determine why an employee has decided to leave the organization is a crucial step in formulating an effective counteroffer. It may initially be challenging to determine if the person is concerned about compensation, management, quality of work life, career opportunity or other considerations, as some of these issues are considered personal, perhaps politically incorrect, or even unwise to mention for fear of legal repercussions. Selecting the right person to talk with the employee about the decision to consider another job is important, because the employee may be leaving because of a supervisor or someone else in the management hierarchy.

Since compensation is often a reason the employee is considering other job opportunities, and employees may be unwilling to mention this reason, the pay package should be reviewed to determine if inequities exist. The most common
problems include internal pay increases that have not kept up with the external labor market or an expansion of the employee’s job so the position is no longer paid appropriately relative to relevant internal or external comparisons. Of course, appropriate adjustments should be considered not only to address the problem for individual employees but also for other employees who may be in a similar situation. Even if the employee is found to be fairly paid, that worker may not understand the reasons for this determination or appreciate the total rewards package. As such, reviewing the pay package with the employee may add clarity and take that issue off the table.

If the employee is considering other job opportunities because of a work environment or quality-of-life issue, the situation needs to be explored in more detail because the importance of these issues can vary widely among employees. Understanding what concerns the employee, and why, may require serious and quick detective work.

Finally, even if the organization is committed to retaining the employee, management must determine whether the individual will be able to work productively if the counteroffer is extended and accepted. Concerns to be addressed often include:

- Has there been a lost confidence or trust in the employee?
- Will an increase in pay or the improvement in working conditions trigger feelings of ill will from peers?
- Will the counteroffer set a precedent for others in the organization and motivate other employees to attempt to renegotiate their pay packages or work situations?
- Will the pay increase create an internal inequity issue and compromise the integrity of the organizational pay structure?

**Crafting a counteroffer.** If it makes sense to extend a counteroffer, the information collected earlier will be helpful in constructing an offer that is appropriate for the situation and one the employee will accept. Management needs to decide if the employee considering other job opportunities is a key employee that it absolutely does not want to lose or an employee that the organization wants to retain for less urgent reasons. If the latter is the case, management can take a less aggressive approach, perhaps by helping the employee compare the job offer with what he/she currently has and discussing future career opportunities that may become available. If the employee is a “must retain,” considerations involving job changes or enhancements to the pay package must be considered. Having a policy that sets forth the parameters with which a counteroffer will be constructed will speed the process and provide consistency in what is offered.

Although pay is often a prominent issue, determining the extent to which an employee’s pay is internally and externally equitable is relatively easy. A more difficult situation occurs when, in order to retain an employee, that person must be paid more than another employee for a similar job at a similar performance level. Although exceptions can be made, how can those exceptions be equitably
explained to employees who learn about this special deal? This is another situation where a well-crafted policy comes into play.

Non-pay issues are often more difficult for management to resolve than those related to compensation. If the reason the employee wants to leave is incompatibility with a supervisor, reassigning the employee to another manager or changing the manager-employee relationship can be difficult. Does this erode the authority of the manager or indicate this manager has a performance problem? Other counteroffer-related changes that are obvious to other employees can create management challenges. These include demands for a promotion or a job with greater responsibility, a transfer to a work location closer to the employee's home, an ability to work from home and flexible work hours. Many of these solutions could run counter to current corporate policies and set precedent for other employees to demand similar accommodations. Therefore, a well-thought-out counteroffer policy is important to avoid these problems.

Once a counteroffer is made and accepted by the employee, management must deliver on promises and ensure that an employee's decision to stay has not created other unforeseen problems. This can be addressed by talking to the employee over the next few months to ensure the issues are being addressed and the employee does not regret the decision to stay.

Management must also carefully consider how to communicate to colleagues about the employee who is made a counteroffer. Employees who receive counteroffers may be likely to share their new deal with others, even as they have probably talked about their search for a new job with co-workers. These co-workers will want to know why the employee decided to stay. How colleagues interpret management’s decision may vary, and it may potentially affect their expectations of receiving equitable treatment and potentially a counteroffer themselves.

**REDUCE THE NEED FOR COUNTEROFFERS**

Making counteroffers involves risk. Special or unique compensation deals can put pressure on the internal equity and perceived fairness of the compensation program. They can also potentially encourage other employees to renegotiate their own pay packages. One important way to avoid problems associated with making counteroffers is to reduce the likelihood that key or high-performing employees will consider job offers from other organizations. In our research, we asked respondents to identify which core programs they used to retain their key talent and then to evaluate the effectiveness of that program. (See Table 7 on page 16.) The most frequently used programs include: talking with key employees about career-development opportunities (96%); identifying key employees who are essential to the business (92%); monitoring satisfaction of key employees concerning their pay and work situation (89%); providing additional learning and development opportunities for key employees (89%); and developing employees who may replace key employees if they leave (87%).
Each one of these frequently used strategies was considered to be effective by most respondents. Although not as frequently used, provision of stock options or equity awards for key talent and succession-planning processes were also evaluated as effective. Interestingly, other compensation focus areas, including supplemental variable pay, retention bonuses and special perquisites and benefits for key talent were not used as frequently, and they were not evaluated to be as effective as other utilized strategies.

Respondents identified numerous methods for reducing the likelihood that key employees will leave. Recognizing that resources are limited and partitioning the level of effort expended to retain employees can enhance results. Figure 1 shows how priorities might be established based on impact and likelihood that an employee will leave the organization.

The organization’s first step is to identify the degree of impact of an individual employee’s departure. This is determined by the criticality of the position, but also may be determined by performance of employees who are being groomed for important positions within the organization. These are individuals whose departure would be considered to be a substantial loss, and the company would thus consider making a counteroffer if the employee was planning to leave the organization (Wells 2003).

Once criteria are known, the organization should consider the probability that these employees might seek opportunities from other organizations (i.e., the individual’s flight risk). Determining the flight risk for each person is a difficult task that requires a degree of insight about the individual’s personal situation, needs and preferences.

When the organization has identified the counteroffer criteria and potential flight risk of important employees, then it can decide how to take control of the counteroffer environment, as shown in Figure 1. Most organization resources should be directed to those individuals who have high impact and are most likely to leave,
and the least resources invested in those cases where there is minimal impact with employees who are unlikely to leave. Focusing resources on the employees with the greatest flight risk and impact is not only about compensation but about offering career and development opportunities and building strong communication links between human resources and senior management.

A key strategy is to maintain open and frequent communications with strategically important and top-performing employees to understand their issues and concerns. Managers should frequently engage key employees, and they should talk about their career preferences and professional development needs and expectations.
within the organization. Identifying a mentor/coach for key employees can also establish a needed communication link for the organization.

Another consideration is to develop a talent supply pipeline and a succession plan for key positions. Identifying individuals who can replace critical employees will limit the need to provide panicked counteroffers. If critical positions have one or more viable candidates who could successfully fulfill the requirements of the position, then the organization has taken substantial control over its counteroffer environment. Further, a succession plan builds a talent pipeline of future organizational leaders. These individuals can then be groomed via training and development, opportunities to participate in organizational projects and exposure to the organization’s strategic decision-making process.

Providing robust career-development coaching and advancement opportunities to key talent is a third approach for controlling the counteroffer environment. It is easy for management to trap critical or high-performance employees identified as important in their current job by excluding them from internal job opportunities. Outlining a plan of advancement and opportunity for these individuals can often fulfill the needs that drive individuals to seek other employment. Partnering with an employee and showing an interest in his/her career development often goes a long way in creating organizational loyalty, something that has become increasingly harder to obtain for organizations.

A fourth strategy is ensuring that rewards for this group are competitive in the marketplace and reflect the value the employee has within the organization. In fact, if the employee is in a critical or key position, the company may justify paying that position above what is paid by competitors. Pay dissatisfaction is not based only on external comparisons but is usually more the result of pay comparisons made within the organization. A competitive compensation program that is perceived as internally equitable is one of the most important lines of defense in retaining talent.

Organizations that require a more aggressive approach to control their counteroffer environment might also consider offering retention bonuses for critical or key talent. These approaches offer a long-term solution with options and restricted shares vesting being awarded over multiple years, which tie the individual to the organization for a longer period of time.

**CONCLUSION**

Knowing when and how to make counteroffers is difficult and can often lead to poor decisions, especially in a time-pressure situation. A clear counteroffer strategy and playbook are necessary for making decisions and developing a counteroffer that will be effective in a given situation as well as be sustainable for the organization.

If counteroffers are the “surgery” that organizations use to fix an immediate retention issue, effective talent management program design is the “wellness” program.
for avoiding counteroffers. Ongoing investment of time, energy and resourcing in aligned key talent development, career planning, succession management and rewards management will reduce the likelihood that key or high-performing employees will consider job offers from other organizations.

AUTHORS
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REFERENCES

Median weekly earnings of the nation’s 110.7 million full-time wage and salary workers were $865 in the first quarter of 2017, an annualized estimate of about $5 trillion, the U.S. Bureau of Labor Statistics reported. Many of these employees work under some form of a pay-for-performance (PFP) system that have an estimated average annual rate of 6.9% (merit-based and merit-based bonuses combined) (Gerhart and Fang 2015). Using these figures, U.S. employers allocate roughly $345 billion annually to motivate employees for superior performance, a rough estimate that is much lower than reality given the prevalence of deferred and long-term bonuses in some occupations. Regardless of the exact figure, the costs are substantial and it is critical that companies develop and implement scientific, evidence-based, effective PFP practices. This article highlights several evidence-based facts that compensation decision makers should know. Since facts are based on empirical regularities, such facts can offer compensation managers evidence-based actionable implications.
SIX FACTS ABOUT PAY-FOR-PERFORMANCE SYSTEMS

Fact 1: Financial incentives are effective.
Scientific evidence clearly indicates that financial incentives are effective. In a recent, comprehensive review of the effects of PFP systems, Gerhart (2017) makes a convincing case for the powerful effects of financial rewards on job performance. Considering the results of several meta-analyses as shown in Table 1, along with additional scientific investigations by applied psychologists and economists, it is safe to assert that there is a moderately strong positive relationship (i.e., an estimated correlation or effect size of about 0.34–0.39) between PFP plans and job performance. Some people critical of incentives continue to loudly proclaim the opposite view, but the scientific evidence speaks loud and clear: Incentives linked to people doing more leads to more quantity, and those designed to increase work quality lead to better quality work. This does not imply that contextual factors do not constrain the effectiveness of financial incentives. On the contrary, financial incentives are likely to deliver their full effect when a PFP plan is well-designed and implemented.

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<td>Correlation between financial incentives and performance:</td>
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<td>Correlation between intrinsic motivation and performance (when financial incentives were not salient) = 0.45</td>
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<td>Correlation between financial incentives and creativity = 0.30</td>
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Fact 2: There is no extrinsic vs. intrinsic motivation tradeoff.
There is a popular belief that if you pay someone monetary incentives for doing something they like to do, they will end up disliking it. This idea is intriguing, provocative and false. The explicit argument that incentives destroy intrinsic motivation is often drawn from Cognitive Evaluation Theory (CET) (Deci and Ryan 1985), although this theory was not developed or tested in an actual payment context for many years afterward (Shaw and Gupta 2015). In the classic studies,
children playing games for extrinsic rewards were observed after these rewards were inexplicably removed. Typically, negative effects were observed in such situations. Several authors have noted that these studies do not have anything to do with money, but even if they did, they would not say anything about the provision of incentives. Rather, they highlight that unexplained removal of popular rewards can cause negative employee reactions. The results are about unfairness, not incentives.

During the past three decades, popular book writers and speakers (Alfie Kohn and Daniel Pink are among the best known) have evoked CET and purported to draw a research-based conclusion that financial incentives are detrimental to work motivation. Indeed, Daniel Pink’s TED presentation is among the most viewed videos in this genre. To be fair, Pink’s points about beliefs and job design issues such as mastery, meaningfulness and autonomy are important issues. Vast research literature on self-efficacy and job characteristics also suggests those beliefs; points granted. But, to pit these somehow on an inverse continuum against the effectiveness of incentives is not only illogical but lacks any evidence-based foundation.

There are three major falsehoods. First, as noted earlier, scientific evidence simply does not support it. Not a single study that has found support for the detrimental effects of extrinsic rewards on intrinsic motivation has been conducted in a work setting (Gerhart and Fang 2015). Moreover, as summarized in Table 1, meta-analytic results reveal that the effects of financial incentives in terms of quality of performance and quantity of performance, including creativity, are positive. Nearly 20 years ago, Jenkins, Mitra, Gupta and Shaw’s (1998) meta-analysis showed only a .08 (positive, but near zero correlation) between PFP and performance quality, although only a few studies existed at the time. Opponents of PFP (e.g., Kohn 1998) rejoiced in the finding. But 20 years later, many studies have been conducted and the more robust results reveal that PFP relates to quality and creativity outcomes in a positive direction that is nearly as strong as the relationship with performance quantity (Byron and Khazanchi 2012; Cerasoli, Nicklin and Ford 2014; Garbers and Konradt 2014).

Second, these arguments are completely detached from economic reality. Data from the Bureau of Labor Statistics suggest that roughly 50% of current U.S. jobs are low-skill jobs. What about the remaining 50% of high-skill jobs? Most PFP dollar amounts are devoted to enhancing job performance of workers at these high-skilled, intrinsically motivating jobs. In fact, nearly all of the highest-paid occupations (e.g., physicians, engineers, middle managers, executives, etc.) are intrinsically motivating and yet incentives and various other performance-based rewards are used extensively. Popular book writing and speech giving are also highly paid modern-day niche occupations with high pay levels and heavy incentives. Shall we propose removing royalties on book sales, book tours and the like (all performance-based incentives), because they reduce intrinsic motivation of the writers and speakers? It is humorous to consider, but it is illogical and not based
on scientific evidence. Pay levels and pay raises are the most powerful tools to attract, motivate and retain top talent in all high-skilled, intrinsically motivating, 21st-century occupations. Financial incentives matter, and they matter a lot.

Third, proponents of the narrative fall for a simplistic “either extrinsic motivation or intrinsic motivation” trap. The argument is alluring and the trap is well-disguised. But, scientific evidence that has accumulated further in recent years about the relationship between intrinsic motivation and creativity now explicitly acknowledges the positive synergistic effects of PFP. As shown in Table 1 on page 20, these factors work well together. At a minimum, intrinsic motivation and extrinsic rewards are additive, but they also are often complementary. Logic and science are aligned here; employees want both more money and exciting jobs.

**Fact 3: There is a PFP sweet spot.**

An interesting line of research shows that when people receive relatively small PFP increases, they do not act negatively. They simply do not act. The idea of a minimum pay raise threshold or a just noticeable difference (JND) is growing regarding its scientific validity, but also its use in practice (Mitra, Gupta, and Jenkins 1997; Mitra, Tenhiala, and Shaw 2016). The science of JND is rooted in the study of psychophysical judgments (Gescheider 1976). A judgment refers to a person's ability to form an opinion about an event. For example, human senses cannot easily differentiate the almost similar level of loudness or sweetness. The difference between the two levels that can be judged to be different is referred to as a difference threshold or a JND. Weber's law relates to JND and proposes that JND is a constant fraction of the initial stimulus intensity. In other words, the JND between two stimuli intensities is directly proportional to each initial stimulus intensity. A drop of the pin may cause enough noise to be noticed under perfect silence. However, one must speak loudly to convey a message near a construction site. The point is that the JND in sound in these situations is a constant fraction of the initial stimulus level. In its most simple form, the idea of JND suggests that a person's ability to notice a change is dependent on the current level of experience.

Some recent evidence suggests that this perspective can be applied to the study of performance-based pay changes and that the observed threshold is a constant fraction of the initial pay level. To illustrate, a PFP raise is an event that represents a person's change in the level of pay. Assume that an employee's salary is $50,000/year. Further, assume that this employee would earn an average expected pay raise of 3% in 2017. This would be equivalent to a pay raise of $1,500, and the new salary would be $51,500/year. How would the employee react to the pay raise and new pay level? What type of opinion would this employee form about this event related to changes in annual salary? If this employee gets a 6% raise, would it lead to twice the positive reactions? Science suggests that this relationship is not linear; and, based on psychophysical theory, employees’ judgments about raises
involve complex mental algebra. In general, the JND-based logic suggests that an employee with a much higher current salary would need a much larger raise in absolute amounts to evoke similar attitudinal or behavioral reaction. A $5,000 PFP raise is likely to elicit strong positive reactions from an employee with a current salary of $50,000. However, for an employee (e.g., an executive) making $500,000, a $5,000 raise is hardly cognitively noticeable.

The most recent evidence, based on multiple investigations, shows that it takes an incentive of 5% to 7% to cause a behavioral reaction in workers (Mitra et al. 1997; Mitra et al. 2016). This does not mean that managers should not give incentives below 5% as economic conditions and other factors often lead to small budget pools. Rather, it means that managers should not expect any changes in employee behavior when small incentives are given.

The application of Weber's law to changes in pay levels can be a thorny issue, however. After all, any change in pay level can be noticed by looking at pay checks or statements. The numerical nature of changes in pay makes it easy to notice the difference. The observation that employees do not talk about pay raises in absolute terms is interesting. A change in pay level is represented and communicated in qualitative terms such as, “I got a significant pay increase,” “Wow, I got a large pay raise” or “My pay raise was so small, and it sucks.” Employees use cognitive category labels to communicate their judgments about incentives. A considerable body of scientific literature points to the extensive use of categories in day-to-day life, and we express our value judgment for almost all reactions in the form of category labels (e.g., beautiful weather, a productive meeting, a great deal). Categories help economize our cognitive effort and provide us with the basis to structure our social environment. As Allport (1954) famously said, “The human mind must think with the aid of categories. Once formed, categories are the basis for normal prejudgment. We cannot possibly avoid this process. Orderly living depends upon it.” It is safe, then, to assert that organizational events, including PFP-based raises, are often assigned value judgments through the use of cognitive categories. As such, the notion of the smallest noticeable pay increase is valid for assessing the point at which rewards are likely to make a difference.

Although the evidence suggests some stability here, there is much that is not known about how people react to pay changes, especially in terms of upper thresholds (when does the incentive “sweet spot” become less sweet?) and employee reactions in a global context. Are these judgments stable across countries and cultures, in other economic environments (current research is based in the United States and Finland), and when inflation rates and past economic growth are high or variable? To address these and other questions, a new global study, “Investigating Merit Pay Across Countries Territories,” (IMPACT) is being conducted. Currently, data have already been received from organizations in more than 20 countries. Nearly 50 countries will eventually be represented in the project.
A primary goal of the project is to establish JND thresholds company by company and country by country to determine whether this fact is globally applicable.

Fact 4: Avoid surprises.
We set expectations for many reasons — we might set high expectations to anticipate a good feeling or low expectations to avoid being disappointed. Based on past experiences and other factors, employees develop pay-raise expectations. Science says that complex reactions occur when people receive more (or less) pay for performance than expected. Employees' complex reactions are, however, found to depend on perceived control over the line of sight (Schaubroeck et al. 2008) and whether employees have confidence in their expectations. The simple research-based takeaway is that predicting how someone is going to react to an incentive above expectations (euphoria or excitement to mild pleasantness) or below expectations (anger or great frustration to mild disappointment or minor irritation) can be challenging. The best research-based advice for practicing managers is to manage the system to employee expectations. Being extremely clear about performance criteria, evaluated levels, the link between performance ratings and incentives, the budget pool for bonuses or increases and expected incentive amounts will improve the system. (The net of the incentive effects was outlined earlier.) Equally important, expectations should be managed to minimize disappointments, such as pay raises far less than expected, because negative reactions persist longer and are felt more intensely.

Fact 5: Justice reigns supreme.
If there is one clear factor in managing pay for performance, it is that workplace justice is immensely important. Scientists say that there are four types of justice: distributive, procedural, interpersonal and informational. Distributive justice deals with the perceived fairness of outcomes such as rewards or promotion. Procedural justice signals the perceived fairness of rules and procedures used to distribute valued rewards. Procedural fairness is influenced by factors such as accuracy, consistency, transparency, correctability, employee voice and a lack of bias (Leventhal 1980). Interpersonal justice reflects the perceived fairness of authority's treatment of employees. Finally, informational justice signifies the perceived fairness of the communication provided to a worker by the boss.

There is a large body of research on distributive and procedural fairness. A meta-analysis (Cohen-Charash and Spector 2001) reveals unusually powerful effects of these two forms of justice on pay-related outcomes. The correlation between distributive justice and pay satisfaction was 0.58. Likewise, the correlation between procedural justice and pay satisfaction was 0.45. Furthermore, these authors reported stronger effects of procedural justice on job performance (correlation of 0.47) as compared to effects of distributive justice on job performance (correlation of 0.15).
While all forms of fairness are important, the critical effects of procedural fairness stand out. Are incentive-related decisions consistent, unbiased, based on accurate information, and transparent process? These perceptions trump all other factors; they are critical for pay-for-performance system health, success and survival.

Fact 6: Fit matters — ensure two Cs, congruence and context.
While PFP is extensively used across all organizations, its effectiveness is mostly determined by its fit with an organization’s processes and context. A well-established logic in the field of strategic human resource management is that SHRM practices must be congruent with each other (i.e., horizontal fit) as well as with organizational strategy (i.e., vertical fit). Accordingly, for a PFP system to work, it must have a good fit or congruence with organizational strategy and employees’ personality. A PFP system must also fit with other HR processes. Contextually, experts claim that a PFP system must also align with organizational culture and national culture. The jury is still out about the influence of national culture on

<table>
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<th>FIGURE 1  Managerial Implications of Six Facts</th>
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<td><strong>Fact 1: Financial incentives are effective.</strong></td>
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<td>PFP systems are powerful tools to drive high work performance.</td>
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<td><strong>Fact 2: There is no extrinsic vs. intrinsic motivation tradeoff.</strong></td>
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<td>Deploy both financial incentives and intrinsically motivating outcomes.</td>
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<td><strong>Fact 3: There is a PFP sweet spot.</strong></td>
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<td>Pay raises of at least 5%-7% are needed to elicit behavioral reactions from employees.</td>
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<td><strong>Fact 4: Avoid surprises.</strong></td>
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<td>Employees’ reactions to under-and over-met expectations are complex. Best option: target incentives directly to meet expectations to minimize surprises.</td>
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<td><strong>Fact 5: Justice reigns supreme.</strong></td>
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<tr>
<td>Ensure that PFP systems are consistent, unbiased, transparent and based on accurate information.</td>
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<td><strong>Fact 6: Fit matters.</strong></td>
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<td>A PFP system should be congruent with an organization’s strategy and other subsystems, as well as culture/context.</td>
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incentive success, but the IMPACT project is addressing this explicitly in the context of merit-based pay increases. Early indications from other studies suggest that national culture has a relatively modest, though significant, effect. Nonetheless, it is obvious that any subsystem is likely to be effective only if it fits with other subsystems as well as the larger system. A PFP system is no exception to this generalized rule.

CONCLUSIONS
The growing scientific evidence, however, can help managers develop sound PFP policies for allocating financial incentives. Figure 1 offers managerial implications of six facts. With regard to the powerful impact of financial incentives, Shaw and Gupta (2015) chided, “It is time to put the issue of whether they work to rest; it is time to attend to issues of how and why they work.” We agree. Facts one and two support this ineluctable conclusion. Accordingly, we submit that the stylistic facts three through six provide the basis for the how and why of developing and implementing effective PFP systems. It is suggested there is a sweet spot for providing meaningful PFP-based raises. We also assert that pay-raise expectations create complex reactions and must be carefully managed. These expectations must be managed to minimize any surprises, specifically negative surprises. Finally, we cannot overemphasize the critical importance of workplace justice and fit of a PFP system with an organization’s strategy and context.

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Challenged with a shortage of talent, an exodus of aging workers, a growing gig economy and continued technological advancements in the workplace, Mercer surveyed employers around the globe about future workforce challenges and what HR professionals can do to keep an organization competitive to attract talent during this period of an evolving workstyle.

Kate Bravery, partner and global practices leader for Mercer’s career business, and Dan Rubin, partner and business leader for Mercer’s central U.S. market, shared insights from their research and advice on how to address some of these concerns.

FROM YOUR SURVEY OF MORE THAN 30 COUNTRIES AND 20 INDUSTRY SECTORS, WHAT IS A MAJOR PRIORITY FOR HR PROFESSIONALS AROUND THE WORLD IN 2017 AND DURING THE NEXT FIVE YEARS?

Mercer’s “2017 Global Talent Trends Study” highlighted executives’ concerns around talent scarcity, an aging workforce and the impact of technology at work. It also highlighted HR priorities around attracting top talent.
externally, developing leaders for succession and identifying high potentials. Combining the insights from employees’ expectations, executives’ plans and HR perspective, four critical trends emerged:

- **Growth by design.** Executives’ bold steps to redesign their organization for enhanced agility.
- **A shift in what we value.** The need for a new rewards paradigm to respond to employees’ changing priorities.
- **A workplace for me.** The continuing journey toward personalization of the employee experience.
- **The quest for insight.** How predictive analytics has the potential to transform talent decision making.

These four trends are challenging organizations to think differently about how they attract tomorrow’s talent, build for an uncertain future and create a thriving workforce.

So, what does this mean for human resources? Below are some immediate implications for HR professionals seeking to stay ahead of the curve:

1. **Prepare to support changes to business models, reporting structures and simplified ways of working.** We are seeing new organizational designs emerge, new skills required for doing business and a new relationship evolving between data and decisions and people and machines. For human resources, this means redesigning the science that underpins job architectures, learning to leverage resources possibly from a wider talent ecosystem (as contingent and contract workers join forces with core staff), and redesigning jobs and career frameworks to engage and develop critical talent.

2. **Rethink rewards and performance management in a flatter, fluid and more transparent environment.** Employees are asking for pay equity and want to be rewarded for a wider range of contributions. As such, there is pressure to be more timely and flexible in approaches to measuring and rewarding performance. Add to this managing those who work remotely and on contract, and it brings into focus the attraction, rewarding and engagement of these diverse populations.

3. **Work out how to deliver on the concept of a “workplace for me.”** With five generations at work and the potential for technology to deliver a more nuanced benefits offering and a consumer-grade work experience, it is not surprising that employee expectations are rising with regard to how they want to work and how they expect to be engaged. To stay competitive, companies are striving to deliver a differentiated work experience focused on the health, wealth and careers of their people.

4. **Translate flexible working policies into workable practices.** After pay, more time off and different ways to apportion work and life was a notable finding from this year’s study. However, despite widespread policies on this topic, many are...
struggling to make this accessible to the masses. There has been an explosion in options available from four-day weeks to nine-day fortnights to sabbaticals, better parental leave and work-from-home policies. However, employees are asking for more and for managers to be better partners in delivering on this aspect of the work experience.

5 | Leapfrog how talent data are used to drive business decisions. Despite the promise of big data and predictive analytics, most HR functions have not made much progress on delivering the type of insights that business executives are demanding. Without timely information on the talent engaged or at risk, or why one team is outperforming another (to give a few examples), human resources will be in the backseat when making significant business decisions. Better data are needed — often through a centralized HRIS, more/better data scientists and enhanced skills around translating insights into stories that change behavior. Human resources has a significant role to play, especially on this last point. Executives worldwide placed data around “engagement” and “team productivity” high on their list.

AS COMPANIES SHIFT OR CHANGE JOBS IN RESPONSE TO CHANGES IN SUPPLY AND DEMAND, TECHNOLOGY, REGULATIONS AND GLOBALIZATION, HOW SHOULD HR PROFESSIONALS APPROACH CHANGES TO JOB EVALUATIONS?

Job evaluation is going to be critical to staying nimble and building an infrastructure that allows for both paced career development and market responsiveness. So what is our advice to HR professionals?

1 | First, an understanding of the responsibilities for a job role and how it will contribute to the success of the organization is critical to any form of job evaluation. As a business partner, it will be important for HR professionals to understand their current universe of jobs and how new or changing jobs relate to the current job. Many organizations are reviewing their job architecture and job catalogs to establish a sound baseline from which to operate in the future.

2 | HR professionals need to be open to embracing other forms of job evaluation and put past stereotypes aside (such as “traditional point-factor job evaluation is old thinking”). The changing job environment will be far from defined and determining the appropriate tool set to value an organization’s jobs will be critical. Having the ability to view internal relativity of jobs and external market competitiveness are key elements to ensure pay competitiveness. This is also how to ensure agility to quickly value new jobs for which there is no precedent. According to Mercer’s “Global Talent Trends Study,” 50% of companies are planning to change their job evaluation approach and most are moving toward a more scientific approach.

3 | As companies are evaluating their rewards and talent infrastructure, the need to understand levels of work remains critical. Understanding the relative
contribution level of jobs within and across functions allows for better and more seamless career management within the organization. Companies that rely solely on market pay levels as a proxy for job levels are subject to market dynamics often out of their control. An additional risk of that approach is that given the rapid pace of change in jobs, companies are often faced with limited market data.

4 | Look beyond job evaluation as a means for establishing pay levels. The value of job evaluation goes well beyond market pricing and job grading. The leveling results can be a solid framework for talent-management programs, succession planning and career pathing, and provide a consistent base for workforce analytics. In today’s talent-led economy, this is even more critical to retaining top talent.

5 | Establish a consistent process for evaluating jobs and engage managers in the process. The changing nature of jobs requires a more scientific underpinning and process by which to establish value. Mercer’s recent “Job Evaluation ROI Survey” found that companies consider management buy-in as a key factor in the successful implementation and adoption of job evaluation. As with many HR processes, simplification is a key responsibility in shifting from talent experts who rest within the HR function to line managers who are by their job definition talent experts. Therefore, HR systems and talent-management guidelines need to be built with this in mind.

CAN YOU TALK ABOUT MERCER’S FINDINGS ABOUT A DIGITAL EXPERIENCE? AND WHAT ARE SOME OF THE BARRIERS HR LEADERS FACE IN PROVIDING THAT TYPE OF EMPLOYEE EXPERIENCE? WHY IS THIS IMPORTANT TO EMPLOYEES?

While an increasing number of organizations are beginning to align their product and service portfolios around customer experience, the employee experience hasn’t been given the same level of attention. Mercer’s “Global Talent Trends Study” shows that 77% of companies globally say that they are on the journey, but have a long way to go toward providing a digital experience for employees — with only 8% considering themselves to be a “digital organization” when it comes to the employee experience.

However, slowly but surely, this has begun to change with some progressive organizations putting the employee experience at the heart of the digital workplace. If we take key principles, such as deep empathy and redesign of experiences based on rich analytics and insights on customer journeys, and apply these to the employee experience, we can enrich and empower employees who increasingly seek a “workplace for me.” To spur engagement and resulting productivity, progressive organizations are investing significantly in platforms, such as the Darwin Reward Centre by Thomson Online Benefits, which offers a personalized self-service digital platform for employees to take control of their benefits.
A data-driven approach to the digital workplace entails looking at high-impact workforce segments, such as client-facing sales or service representatives. Methodologies such as “service design” emphasize that customer interactions include both outward-facing and internal interactions. Yet in practice, many customer-experience teams are weak on the enterprise knowledge and skills needed to change internal processes. This leads to an almost exclusive focus on customer-facing elements, limiting the degree of change that can be achieved. A well-resourced employee-experience team can work hand in hand with the customer-experience team, coordinating activities and projects. This provides win-win outcomes: customer-oriented transformations are more complete because they address internal blockers; and workforce-oriented initiatives have greater alignment with customer outcomes, strengthening the business case for change. At the heart of this journey is an organizational mindset of treating employees as customers. Well-known employer brands, such as IBM, Apple and GE, have embarked on this kind of journey where the dichotomy between customer experience and employee experience begins to blur.

The digital experience is increasingly playing out in how workplaces are designed. More work is being done in integrating elements of the employee journey (not lifecycle) with digital interfaces with a human touch.

HR leaders are challenged by the lack of budget to focus on the employee experience because most technology budgets are allocated to enhancing the customer experience or organizational digital capabilities fundamental to doing business. Human resources can address this challenge by building a case for the employee experience being an integral part of the transformation for organizations to be ready for the “digital tomorrow.”

WHAT ARE TOP PRIORITIES FOR EMPLOYEES? HOW ARE EMPLOYERS RESPONDING TO THEIR EMPLOYEES’ TOP NEEDS? AND HOW MUCH WILL PERSONALIZATION INFLUENCE FUTURE BENEFITS OR PERKS?

When employees were asked what would make a positive impact on their work situation, globally “fair and competitive compensation” and “promotion opportunities” came out on top, closely followed by “leaders who set a clear direction.” In addition, performance management remains an important topic on employees’ minds. Promotion, pay and direction are cornerstones of effective performance management processes. However, with more than 80% of companies having made changes to their performance management practices, or planning to this year, it’s clear that they are still not getting this right. Companies that appear to have a closer alliance with employee needs and employer actions are those that have focused heavily in leader development and place an emphasis on values and culture.

Notably, 34% of employees said they are satisfied in their current role, but are still planning to leave this year due to lack of long-term career opportunities. This is a continuation of the same “engaged but leaving” trend that our study identified.
last year. When looking into the kind of career support that employees want from their company, there are the themes of “transparent pay” and “clearly defined skills for advancement” — areas that employees ranked as most important, but also are less prevalent in organizations today.

Additionally, employees said that health (over wealth and career) is most critical to them, yet only a few companies are actually differentiating in this domain within their employee value proposition. With the explosion of health monitors, increased awareness around food options, and movement on health and the move toward teaming and gaming, this is an area that is poised for growing importance to employees.

Related to this is the fact that more than half of employees said that they want their company to better understand their unique skills and interests to help them find the best job match. This theme of personalization — of making “work work for me” — is also influencing benefits and perks. When asked what would make employees choose one company over another, providing an exhaustive list and taking pay out of the equation, time off was by far the most popular perk, significantly ahead of recreation facilities (such as foosball or video games) and well-being services (such as massages). Interestingly, there was no clear favorite in the various time-off arrangements that employees chose. Some preferred traditional arrangements such as additional paid holidays; others gravitated toward less common options such as a four-day workweek or paid holiday trips. (This last perk — where the company pays for flights, accommodations, etc., in addition to providing the time off — was chosen by one-third of respondents.) Ultimately, people want choice.

**HOW SHOULD EMPLOYERS APPROACH CHANGES TO THEIR TOTAL REWARDS PROGRAM WITH THE CONTINUED EMERGENCE OF VARIOUS WORK ARRANGEMENTS?**

Employers should approach employees — full-time or freelancers — as they approach consumers. The more they can personalize rewards to the needs, values and specific situations of their employees, the more they will resonate with their people and matter in decisions around where to work and how energized they are at work. This means less focus on policy and control and more focus on flexibility and inclusion.

Thinking about flexible working as part of their rewards program is firmly part of the equation, since it is known that this dimension is a highly valued component of the employee experience. Employers can objectively evaluate jobs to understand whether a particular job lends itself to a flexible work arrangement, what type of flexibility, and thus can design their flexibility programs accordingly.

Additionally, employers should be thinking about the employee experience of “free agents” such as contingent workers or independent contractors, in the same way they think about the experience of employees. Employers need to consider
how they create a compelling value proposition to attract workers who might be interested in a different type of work relationship.

Gig workers are often more individualistic in their approach to work and less likely to be interested in protecting the brand of the organization they gig for, which presents a risk to businesses that have not thought through how those workers contribute and how they represent their brand. Companies are responding to this risk by designing incentive solutions and behavioral nudges to engage these workers and motivate desired behaviors. But, the results have been mixed at best. Creating strong short-term incentives for people to participate does little for engaging them in the mission, purpose and performance of the company. Participation does not equal engagement.

Mercer’s view is that gig workers need to have a relationship with the brand that employs them in the same way that customers have relationships with the brands they purchase. When consumers use a brand to represent aspects of their identity, they become ambassadors — and the same is true for employees. When employees feel a strong sense of connection between their identity and the work they are doing, they are more likely to feel invested and engaged in their work.

To learn how to foster this sense of engagement, companies can ensure that their value proposition for gig workers provides: meaning and structure; belonging and camaraderie; and feeling important, valued and respected for the work they do.

**WHAT IS THE ONE THING HR PROFESSIONALS GLOBALLY SHOULD TAKE AWAY FROM YOUR FINDINGS?**

If HR leaders are to take away one thing from Mercer’s “2017 Global Talent Trends Study,” it should be that employees are expecting more out of their work experience — from how and when they work to their pay and benefits. Employees are more informed than ever about what jobs are available and what pay/benefits they can expect. And, the onus is on employers to get their message out there regarding what it is like to work for them and the life/workstyle they can expect. HR leaders should also remember:

1 | Simplification and agility are driving executives’ decisions. This should influence any changes being proposed to organizational design, HR systems and policies to ensure human resources secures sponsorship.

2 | Talent data still remain the key to a seat at the table. Knowing what data will shape management decisions, when data are needed and having the technology/scientists to mine predictive insights will be critical to shaping the agenda.

If asked to predict which skills will grow in importance for human resources, we would point to some of the consumer-insight competencies that are moving from the marketing function into human resources. For example, digital communications and the development of “personas” and analytical tools such as predictive modeling and conjoint analysis.
With organizational redesign in the cards, there is a second set of skills around change and innovation that are also coming to the forefront, such as design thinking, designing agile work structures/career frameworks and job redesign.

Mercer’s “2017 Global Talent Trends Study,” which examines the top trends impacting today’s workforce and how organizations are responding, uncovered four trends that are shaping the outlook for this year.

Growth by design: The C-suite’s change agenda to drive growth; The quest for insight: Analytics will be a key player in winning the war for talent; A shift in what we value: Recognizing what matters most to employees; and A workplace for me: Continued focus on personalization and flexibility. The study is based on the input of more than 1,700 HR professionals, 5,400 employees, and 400 business executives from 37 countries and 20 industry sectors. It assesses significant gaps in alignment, identifies several critical disconnects concerning change, and makes recommendations to capture growth.

ABOUT THE AUTHORS OF THE MERCER 2017 GLOBAL TALENT TRENDS STUDY

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Wages See a Year-Over-Year Increase While Overall Pay Slows
The annual median base pay in the United States grew 2.1% year over year in May 2017 to $51,159, but overall pay growth decelerated slightly from 2.4% in April — revealing a four-month downward trend.

These are the findings of job site Glassdoor in its “Glassdoor Local Pay Reports.” The results also found that recruiters, as well as many health-care and retail jobs, experienced faster-than-average wage growth across the country and in each metro area covered by the reports. The reports provide a view into the country’s wage picture with salary estimates for 60 job titles across multiple industries and year-over-year pay growth trends in the United States.

In nine of the 10 metro areas tracked, the pace of pay growth in May slowed compared to April. Only San Francisco saw the rate of pay growth increase, up from 2.2% year-over-year growth in April to 2.3% in May.

As the U.S. economy hits full employment, recruiters saw the biggest year-over-year pay gains this month at 7.4% growth to a median base pay of $51,216, indicating that companies are relying more on passive candidates to fill jobs, putting recruiters in high demand.

Traditional retail jobs also are seeing fast pay gains that are well above the national average, with store manager pay up 4.9% to $48,364 and cashier pay up 4.6% to $27,492. Despite weakening among large box department stores, the retail labor market overall appears strong and growing. Warehouse associate, a critical job for the growing online retail industry, saw a 6.7% rise in wages to $40,882.

Registered nurses (RNs) saw 4.5% wage growth in May to a median base salary of $66,305. Demand is high for skilled nurses, and the shortage of RNs across the United States is being reflected in these big pay gains. Several other jobs in the health-care industry experienced above-average wage growth, including pharmacy technician (up 4.3% year over year to $30,369) and medical technologist (up 3% year over year to $53,313).

Among high-paying jobs, professor pay continues to rise quickly, up 4.4% year over year to $90,274.

The weakest U.S. pay growth was for design engineers, a common manufacturing job, which experienced a pay decline of 2.7% year over year, to $69,337, a possible result of the country producing more services than products and rising automation. Java developer salaries also fell in May with negative growth of 1.9% year-over-year. This follows several months of slow or negative year-over-year growth for this job title.

In Houston and Philadelphia, wage growth was nearly flat this month, and in Washington, D.C., pay growth lagged far behind the U.S. average. Houston median base pay rose by just 0.4% year over year to $54,182. Philadelphia median base pay rose by 0.5% year over year to $53,818 in May, compared to 1.4% in the previous month.

Employees Still Don’t Feel They’re Saving Enough for Retirement
While employees are more optimistic about the future, they still say they are not saving nearly enough to retire comfortably and on schedule.

However, optimism and confidence have continued to be two steady trends since 2012 in the “Lincoln Retirement Power Participant Study.”

Five years ago, about 29% reported being confident and 45% said they are optimistic about their retirement savings. Fast forward to today, and 39% are confident and more than half (55%) are optimistic.

A full two-thirds of retirement plan participants understand that they should be saving at least 10% of their salary to stay on track, and 45% believe they need to save 15% or more — which aligns with general industry recommendations. However, only four out of 10 savers are saving as...
much as they think is necessary, and among the savers who are saving less than what they think
they need, the majority (68%) would need to increase their savings by 5% or more to be on track.

The more competing priorities a participant reports, the less money they contribute to their
retirement plan. Only 36% of individuals with eight or more competing priorities are contributing
10% or more to their retirement plan, but of those who have two or fewer priorities, fighting for
a share of their wallets, 59% are contributing at least 10% and 40% are putting 15% or more
away for retirement.

Student loan debt has a major impact on retirement savings, no matter how many other competing
financial priorities a participant reported. Six out of 10 with student loan debt said it is keeping
them from saving more for their retirement.

Work-Life Balance On The Rise; Managers Setting Good Example

More than half of the 1,000 working professionals surveyed (52%) say their work-life balance
has improved from three years ago. In addition, nine out of 10 report that their manager is “very
supportive” or “somewhat supportive” of their efforts to achieve this balance.

According to the findings of a Robert Half Management Resources survey, nearly three-quarters
(74%) say their managers even set a good or excellent example.

The most optimistic group of workers? Millennials. Additional findings show:

- Professionals between the ages of 18 and 34 were more than twice as likely as those 55 or
  older to cite improved work-life balance (67% vs. 31%).
- 62% of younger workers reported their manager is very supportive of their efforts to achieve
  work-life balance, compared to 50% of the oldest respondents and 47% of those 35 to 54.
- Nearly eight out of 10 (79%) respondents age 18 to 34 said their manager sets an excellent
  or good example.

U.S. Employees Give Senior Leadership Low Marks

U.S. employees give their senior leadership low marks on key aspects of people management,
including the ability to develop future leaders, evoke trust and confidence, and demonstrate
sincere interest in employees’ well-being.

According to research from Willis Towers Watson, employees, however, give their immediate
managers higher grades, although research shows significant room for improvement.

The Willis Towers Watson “Global Workforce Study” found that less than half (45%) of U.S.
employees have trust and confidence in the job being done by their organization’s top leaders.
That’s down from 55% who responded similarly in 2014. Just under half (47%) believe leaders have
a sincere interest in employee well-being, while barely four in 10 (41%) think their organization is
doing a good job of developing future leaders.

Employees view immediate managers more favorably. More than eight in 10 (81%) say their
managers treat them with respect, while 75% say managers assign them tasks that are suited to
their skills and abilities. A solid majority (60%) believe their managers communicate goals and
assignments clearly.

The research, however, shows that immediate managers have much room for improvement. Barely
half of employees (56%) say their managers make fair decisions about how performance is linked
to pay, while half (50%) believe managers have enough time to handle the people aspects of the
job. One of the key leadership tasks requiring strong people skills is performance management.
Yet, more than 80% of managers said they spend less than six hours per employee per year on
Published Research in Total Rewards

A review of total rewards, compensation, benefits and HR-management research reports.
(Compiled by the editors from the WorldatWork Newline column at worldatwork.org.)

this task. If managers devoted more time to performance management processes, they might improve their ability to coach their teams. The research indicates poor scores in this area, with only four in 10 employees saying their managers coach them to improve their performance.

The study, which surveyed more than 2,000 companies globally, including 441 from the United States, found that U.S. employers are taking steps to enhance their leadership development programs, but there is also room for improvement. Six in 10 employers agree they develop leaders who will be able to meet changing business needs, while 55% report they make effective use of a leadership competency model. Just over half (53%) currently use leadership development technology, while another third (31%) plan to add this technology within the next two years.