

Future-proof your organization

Spotlight on pay for skills



welcome to brighter

Caryn, Chief Talent Officer at a global banking corporation, has been asked to identify the skills the organization will need in two to five years and to benchmark these against the existing workforce. She's been charged with leading the investment to upskill employees to meet changing market demand while also instilling a culture that values skill development and aligning with the compensation and rewards strategy. With the Microsoft Excel reports exported from the HRIS she's relied on for years, Caryn is at a loss regarding how to scale for this magnitude of skill assessment, employee development and cultural transformation.

Imagine a world where you could predict the skills your organization will need today, tomorrow and well into the future.

Recent experiences have taught us the value of knowing what skills reside within the organization, how demand for skills can swiftly shift with the market, and the value of deploying or developing existing employees to meet changing needs. By knowing how work will change and the impact on skills demand, organizations can reskill or upskill their people to future-proof their workforces for whatever upheavals may come.



Pay for skills as a key component of a skill-development culture

Leading companies view their workforces through a skills lens to help attract, build and retain critical skills to provide flexibility and agility. The focus on skill development should be integrated with the design of people programs driving recruitment, development, mobility and rewards.

Only when reinforced across the entire employee life cycle will a culture of life-long learning be established and sustained. Although [skills-based practices](#) are currently more established within hiring and performance management processes, pay-for-skills programs are increasingly being counted on to deliver results. In a recent Mercer survey of more than 400 companies across the globe, attracting and retaining premium skills (80%) was cited as the top objective to link pay to skills, followed by incentivizing skill development (49%) and incentivizing career progression (49%).



What does pay for skills look like today?

In most companies, pay for skills is delivered at the point of hire. Eighty-six percent of survey participants indicate that they pay for skills for new hires. However, most do not have processes to ensure they maintain premium pay for premium skills post-hire. Nor do employers focus on rewarding skill attainment and development once a new hire becomes part of the organization. In fact, 46% of the participants in our survey say they do not have programs that link pay to the development of skills. At the same time, less than a third acknowledge that they indirectly reward for skill development through career progression (29%) and salary progression (28%).

The research is clear; to deliver on the primary objective of attracting and retaining critical skills, employers must increase pay for skills across the employee life cycle. Pay for skills can take many forms and should be aligned with your overarching rewards and talent strategy. For some organizations, pay for skills will revolutionize the way workers are paid. For others, paying for skills represents an opportunity to supplement or support existing rewards programs.



New hire

Stay a step ahead of the market with on-demand skills-based market trends and insights.



Annual review

Reshape your legacy process, or replace it altogether by incorporating AI-based tools.



Project assignment

Reward the use of critical skills on projects, gigs and assignments.



Job move

Don't allow promotion or transfer pay guidelines to prevent effective differentiation between high- and low-demand skills.



Critical skill retention

Activate cash or equity programs for those with future-critical skill sets.

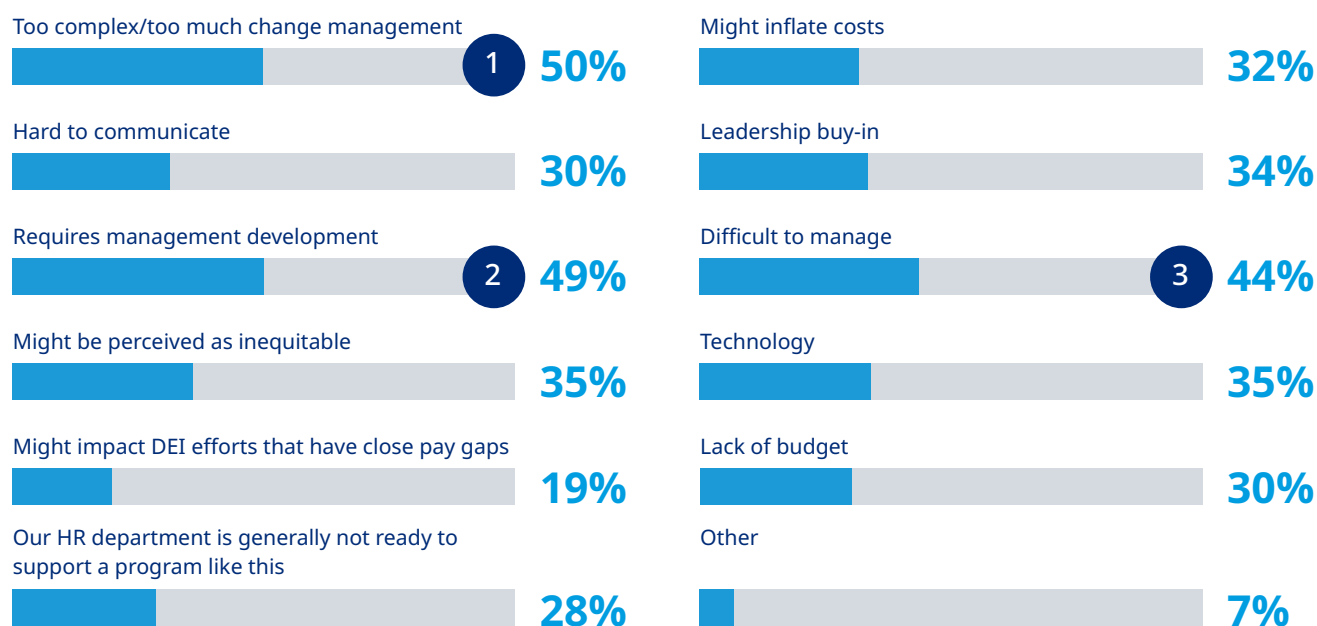
Why pay for skills can work for you

Our survey participants listed the top barriers to advancing their pay-for-skills programs. These barriers can be organized into three groups:

- Capability to support the process — citing difficult to manage (44%) and technology (35%)
- Capability to manage change — citing too much change management (50%), requires management development (49%), leadership buy-in (34%) and hard to communicate (30%)
- Fear of unintended consequences — citing might inflate costs (32%) and might impact D&I efforts (19%)



What are the barriers to moving to a stronger skills orientation to rewards within your company?



Tools and data simplify the process

In today's data-driven world, a sustainable program relies on real-time data and efficient processing. As discussed earlier, pay for skills can take many forms — some of which don't require new systems or technology to deliver, as they mainly need robust data on skills to function. Types of data that can be valuable to inform a pay-for-skills program include **external/market data** representing the supply, demand and value of skills in the external market and **internal/workforce data** representing your company's current and potential skills. Among survey participants, only 12% track the market demand and availability of skills, whereas another 50% monitor the supply and demand informally. We anticipate this practice will grow significantly with increased access to robust data sets found in the Eightfold® platform, Mercer Skills Pricer and others.

Some companies are exploring ways to deliver on pay for skills as part of their current annual pay processes or, in some cases, replacing existing processes altogether. Mercer Skills Pay Planner is a tool designed to simplify the multi-faceted leader-decision-making process by allowing AI to generate a recommendation based on many factors, including the company's own skills investment strategy. The tool produces a layman's description of why the recommendation was made and what factors were weighed in making it.

Companies want an efficient way to assess and validate skills before linking to pay. AI provides low-touch assessment and validation services that build the confidence and courage to invest the development of essential skills. AI technology can teach us more than we can teach ourselves. From this base, Mercer's expertise and data-rich resources can align the emerging skills required for a brighter future and the requisite companion investment and compensation strategy. The process is human-led and technology-enabled.

AI at work

AI is powering data sets and solutions designed to help you deliver pay for skills.

Mercer

Mercer Skills Library is a market-derived skills taxonomy — curated by Mercer and mapped to the Mercer Job Library — which can be leveraged for many talent-related use cases, including pay for skills.

Mercer Skills Pricer is powered by a proprietary algorithm leveraging the world's most robust pay data source to produce market data insights on skills, including supply, demand and value.

Mercer Skills Pay Planner is an AI-driven tool designed for leaders to implement intelligent pay at the worker level by combining skill scarcity and business criticality, along with other business-related employee and performance data.

Eightfold

Eightfold's Talent Intelligence Platform™ is built on a global metadata set — with more than 1.5 billion talent profiles, one million job titles, and 1.4 million unique skills. Powered by patented talent AI and continuously refreshed, the platform can deliver real-time insights about each individual's potential, career trajectory, skills, skill adjacencies and more.

Five questions to consider

1. How confident are you that your pay philosophy is rewarding the right things? Could your pay programs do a better job of supporting skills and career development?
2. Is your pay philosophy aligned with your workforce planning approach and dynamic enough to enable all strategies (build, borrow, buy and bot)?
3. How well do you currently understand external skills trends, including the supply and demand for skills most relevant to your business?
4. What is your current process to understand what skills are “hot” and may require premium pay? Do you know what skills are commanding the most pay in the external market?
5. How transparent are you regarding the increasing or declining need for specific skill sets in your organization? Do your career development, performance management and annual pay processes reinforce such messaging?



Creating a culture that breeds transparency

At the core of a successful pay-for-skills initiative is a culture that reinforces the value of skill development and rewards for market and business relevancy. With greater transparency and insights, backed by unbiased data, employees can understand what skills are valued and needed.

They can be encouraged to develop new skills, earn skills credentials and deliberately advance skill acquisition as part of their career management. The organization can communicate the business's critical skills and the aspects of the business that will drive future value creation, giving employees a line of sight into their future employability and income potential. Trust can be achieved with transparency.

Coupled with a robust learning and development program emphasizing access to learning opportunities for all, the transparency possible through pay for skills can democratize opportunity and lead to greater equality in careers and rewards. Incorporating diversity, equity and inclusion (DEI) metrics into the program management and sustainability efforts is best practice. Mercer can help create a defensible, communicable system deployed at scale, supported by compensation change management communications and guidance. Employee buy-in is essential for success.

When done right, pay levels can be informed by market insights. Employees know what skills are valued and what skills will be needed for future development. And both employees and employers reap the rewards of actively [supporting skill development](#). The result is more engaged employees, more stimulating careers and the ability of employees to thrive within organizations longer.



Five tips for success

- 1 Prioritize.** Start by knowing what skills will be most critical to the strategy and the most significant risks to your industry. What skills will matter most in mitigating these risks while enabling strategy execution?
- 2 Evaluate alignment.** Consider whether your pay-for-skills techniques align with the company's broader rewards and people strategies. Is there a foundation in place to ensure these techniques will be understood and consistent with your employer brand?
- 3 Fit for purpose.** Don't try to roll out an enterprise-wide program. Pick a department, business function or country. Start with a pilot, and look at the effects of pay for skills, such as retention and vacancies, engagement, and development initiatives. Test and learn — then go from there.
- 4 It's personal.** Unlike changes in performance management or employee development plans, making changes to pay can quickly become extremely personal. Any changes must be supported with communications and change management expertise.
- 5 Know the value of critical skills.** Be sure you're "placing bets" on the right skills. Using technology such as Mercer Skills Pricer, employers can evaluate a skill or skill cluster in real-time and predict whether the value will increase or decrease over time. With such insights, a company can make informed investment decisions about employee development and the skills to buy or borrow from outside the organization.

Secure future talent

In today's ever-changing business environment, having the right workforce skills can be a market differentiator. Seeking the competitive edge in attracting, building and retaining critical skills, employers are looking to increase pay-for-skills practices across their programs. Companies are recognizing that pay for skills is a journey, and they're charting unique paths based on desired pace, breadth and program components. Where does your pay-for-skills journey begin?

Interested in learning more?

Reach out to a Mercer consultant to get insights to future-proof your organization.

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