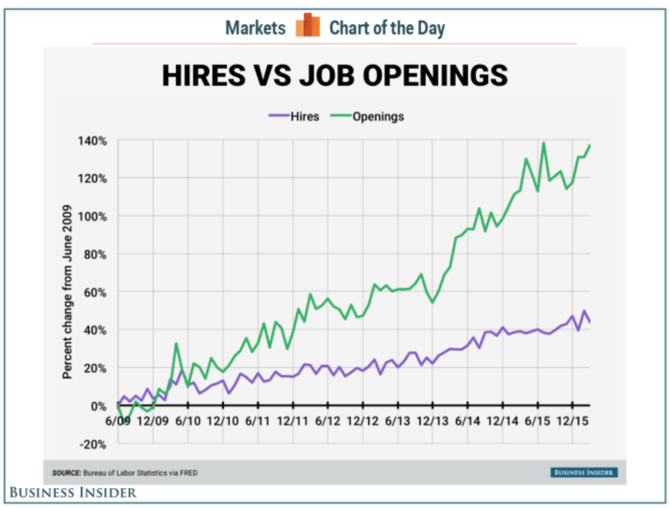
Introduction

The profound changes seen in 2017 will have a dramatic impact on organizations and how human capital is managed in 2018 and beyond. This white paper will explore some surprising and impactful drivers for HR leaders as they plan for 2018 and the future. Key approaches for managing compensation to address these drivers will be presented to help navigate this crucial time period.

Skills Shortages Forecast in 2018

After the September jobs report, Jan Hatzius predicted a strong labor market, stating that, “(we are) out of labor resources in the sense we no longer have slack in the economy.”[i] The Chief Economist at Goldman Sachs pointed to consistent data on skills shortages, job openings and quits. According to Dr. Hatzius, while wages accelerated last year, weak wages this year will give way to increases.



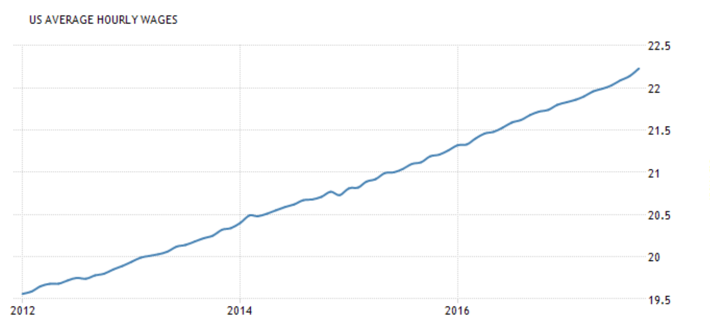
Job openings are growing faster than hiring

Dr. Hatzius' predictions have been highly accurate. He is the two-time winner (2009 and 2011) of the Lawrence R. Klein Award by Blue Chip Economic Indicators, Inc. for the most accurate US economic forecasts over the prior four years, a period including the global financial crisis. As the accompanying chart clearly illustrates, the growth in job openings is dramatically outpacing the ability of companies to hire.

The implication for HR leaders is that competition for talent will accelerate in 2018. For certain job categories and industries, skills shortages will make it difficult to recruit in the open market, so retaining talent will enable companies to blunt the impact of skills shortages. Compensation is a key element of any retention strategy.

Wage Increases Will Continue

The latest Federal Reserve central bank Beige Book Report[ii] said economic activity increased even amid major disruptions across the south from hurricanes. Labor markets were widely described as “tight” and worker shortages in certain sectors were “restraining business growth.” What's more, “growing use of sign-on bonuses, overtime and other non-wage efforts to attract and retain workers” were also reported.



Wages continue on an upward trajectory

During the current budget and planning cycle, HR leaders must address wage increases needed to remain competitive in the marketplace. In a recent survey,[iii] employers overwhelmingly indicated intentions to proactively hike wages.

- 71% have been increasing wages to remain competitive
- 74% see more competitors raising wages in order to recruit quality talent
- 72% believe that the tightening labor market will drive wages up
- 72% believe they must pay higher wages to hire great talent

As labor markets continue to tighten, it is important for business leaders to understand the key drivers for retention and also attracting candidates.

Employees Care About Comp First, Second and Third

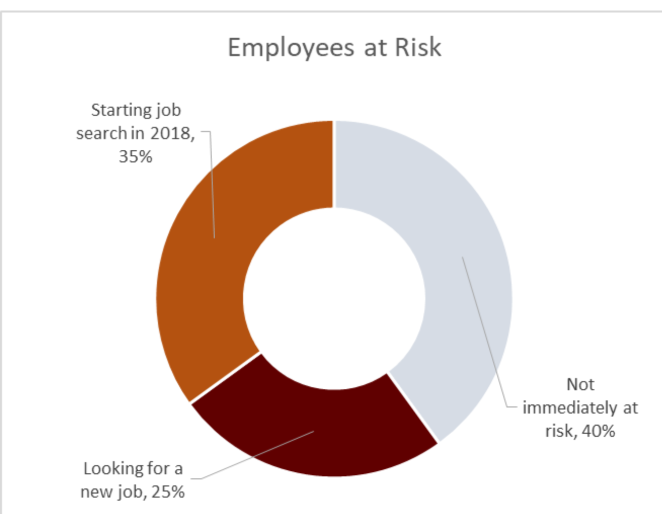
Employees and employers were also surveyed regarding primary retention drivers. While employers stated the top driver as "supervisor relationship," the top three drivers named by employees were all related to compensation.

1. Financial compensation
2. Benefits
3. Growth and earnings potential

It is imperative that HR leaders make compensation the primary focal point in attracting and retaining talent. While other factors are important, if compensation is not managed well, organizations will experience unplanned attrition and recruiting problems as a result.

Half of Employees Will Be Looking for New Jobs

The same survey found that about one in four employees will be looking for a new job in the fourth quarter, with an additional 35 percent looking in 2018. As shown above, job opening growth is outpacing the hiring rate. Compounding the effect of the tight labor market is the ever-increasing ability of job seekers to find employment outside of their physical location. The option to work remotely raises job mobility and creates increasing pressure on employers as job seekers have a larger number of positions available to them—sometimes in markets where pay is dramatically higher.



With over one-half of the workforce looking for new jobs in 2018, aligning compensation to meet the likely attrition and recruiting challenges is crucial.

3% Increases Are Not Compelling

The average merit increase budget was 3 percent for the past three years, according to a recent survey.[iv] In practice, actual increases varied significantly.

- 9% averaged 3 to 4 percent
- 10% averaged 4 to 5 percent
- 11% averaged over 5 percent

In addition, top performers are receiving top rewards. Approximately 34 percent of organizations surveyed granted top increases of over 10 percent, and more than half granted top increases of 7.5 percent or more.

Effectively managing the relative distribution of merit increases is essential to retaining top talent. As shown above, compensation is the paramount concern of employees. Coordinating merit increases using spreadsheets and ad-hoc processes has proven to lead to errors and misaligned compensation. Companies can ill afford to mismanage compensation in this market.

Workplace, business and company culture factors are very important to employees. However, compensation remains paramount among all retention drivers. Ongoing improvements in the job market is leading to an increased number of employees looking at other opportunities. Clearly retention is growing in importance making it a crucial time for compensation management.

The following best practices are offered to help business and human resources leaders address the challenges they face in this evolving labor market.

5 Best Practices for Addressing Urgent Compensation Management Challenges

Facing such critical emerging issues, HR leaders must treat the current compensation management cycle as the key to future business outcomes. The following are five best practices to make this year's compensation management cycle successful across an organization.

1. Use an automated process to obtain, review and approve merit increases. Avoid error-prone spreadsheets and manual processes.
2. Ensure that all processes and systems are lean and efficient, enabling managers to focus on compensation instead of the mechanics of entering, validating and submitting data.
3. Analyze proposed increases in the context of smaller groups as well as larger segments of the organization.
4. When analyzing target compensation, ensure that high performers are rewarded commensurate with their contributions.
5. Verify that any technical solution supports appropriate review processes and provides a full audit trail.

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[i] Hatzius, Jan. Interview with Scott Wapner. CNBC exclusive. CNBC, October 6, 2017.
[ii] United States Federal Reserve Board, "Summary of Commentary on Current Economic Conditions," October 18, 2017.
[iii] Spherion, "Emerging Workforce Study," 2017.
[iv] PayScale, "Compensation Best Practices Report," 2017.