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Gallup's Perspective on

How to Align Your Employee Compensation and Talent Management Strategies

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Building an Effective Total Rewards Package

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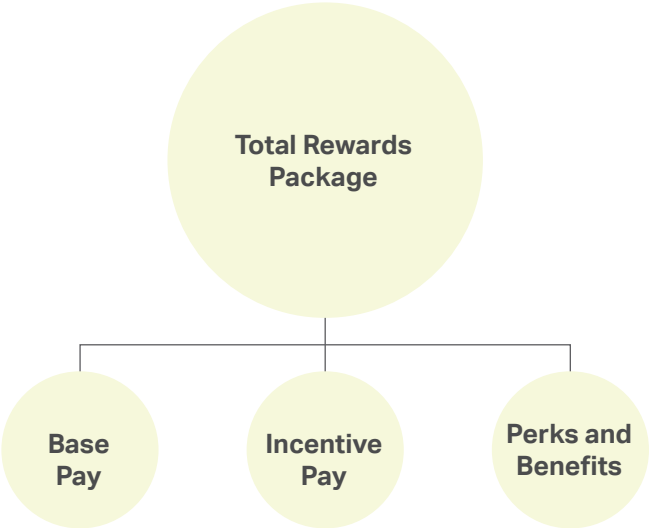
Compensation is one of the most awkward yet important topics that employers and employees discuss.

For employees, compensation is personal and affects their lives in a big way. For employers, compensation can be equally personal, and it often accounts for the largest single expenditure in their budget.

Compensation is particularly relevant to an organization's talent management strategy because it affects an employee's decision to join an organization, how they are rewarded for performance, their development and their decision to leave. As a result, organizations must intentionally use compensation to promote the right employee experience and employer brand.

In its simplest form, compensation comprises base pay, incentive pay, and perks and benefits, creating a total rewards package.



When designing employee compensation, it's critical to think about the total rewards package and its effect on the employee experience. A total rewards package is a big part of the promise employers make in their employee value proposition (EVP), even if the EVP is not formally articulated.

People are complicated, and trying to properly motivate them through a compensation strategy is challenging. Effective total rewards strategies must appeal to most employees, make sense for their jobs, and encourage the behavior and business results that the organization wants. Thus, calibrating an effective total rewards program requires an understanding of how all of the program's components affect various employee perceptions, behaviors and outcomes.

> Effective total rewards strategies must appeal to most employees, make sense for their jobs, and encourage the behavior and business results that the organization aims to achieve.

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Compensation Packages That Fail to Motivate

The primary focus of compensation strategies tends to be incentivizing performance. Yet, based on Gallup's research and experience, **most compensation strategies don't inspire better performance in all of the ways that organizations intend**. Many approaches unintentionally promote cheating, destroy collaboration and discourage employees from doing what is best for customers.

Gallup research shows that:

22%

of employees strongly agree that their pay and incentives are fair in comparison to the job market for people doing similar work

21%

of employees strongly agree that their pay and incentives motivate them to achieve individually

22%

of employees strongly agree that their pay and incentives motivate them to do what is best for their organization

Designing compensation to influence performance is tricky. Compensation tells people what not to focus on just as much as it ties behavior to important outcomes. And while compensation is a basic need of employees, other factors, such as fit to role, engagement, management and team collaboration, have a much stronger influence on their performance.

Furthermore, **compensation strategies often work against talent management strategies**. For instance, feedback from managers often is negated when managers ask employees to do one thing but reward them for doing something else, such as asking employees to provide outstanding customer service but rewarding them for making a fast sale, even if the sale is not the best solution for the customer.

Also, discussions of compensation often derail performance reviews and development conversations when "pay" becomes the primary focal point, with everything else secondary.

In fact, employees often think of performance reviews as the annual meeting where the boss rates the employee's performance and announces their bonus and promotion decisions. Rather than focusing on their achievements, opportunities for improvement and development, employees in a performance review that includes a pay discussion often are nervous and distracted, anxiously awaiting the last five minutes of the meeting when they find out how much they will get paid. Without a well-aligned total rewards strategy, managers face an uphill battle against a performance system that undermines what they are trying to accomplish.

In addition, performance rewards can be counterproductive when they divert attention from less incentivized job responsibilities. Perks and benefits also often fail to fulfill their purpose when they don't align with employees' most important needs and desires. And, retention strategies fail when they overly focus on pay at the expense of employee development.

Because base pay, incentive pay, and perks and benefits have a unique effect on each employee, it is important to carefully consider the intent and possible outcomes of each component. Every employee needs a compensation plan that is fair, motivates them to succeed and supports their wellbeing over the long term.

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Establishing Base Pay

The most fundamental type of compensation employees receive is their base pay, in the form of salary or hourly pay. Base pay is the foundation of all compensation plans because it defines how much money employees can expect if they successfully perform their basic job requirements.

As a general rule, organizations should determine base pay in relation to how much people in similar jobs are paid at other organizations. Companies should conduct regular market pay studies to ensure their pay is competitive; otherwise, top talent may gravitate to better-paying jobs, or employers may overpay for certain roles. Having market pay data readily available to managers is helpful for negotiating pay or proactively ensuring employees are happy with their career trajectory.

Naturally, the challenge for organizations and compensation strategists is determining the value and return on investment that certain jobs and employees contribute relative to their base pay. In a world of plentiful resources, organizations can more easily pay above market to recruit and retain top talent for most jobs. However, employee compensation is one of the largest expenditures for most organizations, and they often are required to work with a smaller budget than they would like. Consequently, pay conversations become difficult when employers can't give employees the base pay they desire. Making compensation feel equitable becomes an art, effectively expressing the full value of a total rewards package through engaging manager conversations.

Most People Think They Are Underpaid

Pay conversations can be tense when neither the manager nor the employee has a good understanding of what they could make at another employer. Research shows employees are biased in estimating how well they are paid and are more likely to believe they are underpaid relative to their market value.

A study of more than 71,000 employees conducted by PayScale found that when employees were paid *above market value*, 35% of them incorrectly believed that they were paid *below market*, 45% thought they were paid *at market* and 21% realized they were paid *above market*. In contrast, PayScale found that among employees who were paid *at market*, 64% perceived they were paid *below market*, 30% accurately assessed that they were paid *at market* and 6% thought they were paid *above market* (PayScale, 2017).

Given that employees tend to think they are underpaid even when they are not, grounding pay conversations in market pay data is particularly important. Social comparison research demonstrates that we determine our own social and personal worth based on how we stack up against others (e.g., wealth, attractiveness, intelligence, success).

As a result, employees often assess how their career positioning compares with others' pay, status and success. In other words, employees largely judge their pay relative to their peers' pay, rather than the value they bring to an organization or the objective amount of money they need to live happily.

For this reason, paying at or above the market, alone, is not enough. An open, encouraging conversation about pay philosophies, policies and methods for determining pay is even more important than the actual amount of base pay when it comes to helping employees feel satisfied with their compensation (Williams, McDaniel, & Nguyen, 2006).

Research shows that it's better to pay at market and have effective pay conversations than pay above market but fail to align on pay conversations (PayScale, 2017).

In fact, pay conversations can help mitigate below-market pay if the reasoning for the pay rate is communicated effectively.

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Training Managers for Effective Pay Conversations

Pay conversations between managers and employees are difficult because managers often do not feel adequately trained to talk about their organization's approach to compensation. And, yet, teaching managers to have open, authentic and encouraging conversations about compensation results in higher employee satisfaction with pay.

Additionally, managers have far too few conversations with their employees in general. A lack of authentic and honest rapport can make tough conversations even tougher, while warm collegiality can resolve tension before it starts.

Here are a few suggestions for improving manager pay conversations:

- Separate pay conversations from performance reviews.
- Talk about the organization's philosophies and policies behind pay.
- Explain the factors that affect an employee's current and future pay.
- Create transparency around the process, but not necessarily transparency about what other employees make.
- Ask employees what they value most about compensation: base pay, opportunities to make more through pay for performance, specific perks or benefits such as job flexibility.
- Provide a path forward that helps employees see a bright future with the company in terms of both career growth and financial prosperity.

To learn more, discover Gallup's five conversations that drive performance in Gallup's *Re-Engineering Performance Management* research paper.

Base pay isn't static, of course. It increases over time, and the reasons and procedures that determine those increases have their own effects on employees' pay satisfaction.

Base pay increases generally occur in three types: *cost-of-living adjustments (COLA), merit increases* and *promotions*. Each type motivates employees in different ways.

Cost-of-living adjustments: These adjustments tend to be a basic employee expectation, and employees often react negatively when they get a smaller-than-expected increase, rather than being motivated by their raise. Employees like to receive a dependable paycheck and to know that their pay will increase reliably over time. The key is ensuring that employees' pay stays competitive with the market as they advance in their careers.

Merit pay: Merit increases are rewards for good performance and vary with the level of achievement attained. Merit pay increases can motivate short-term performance or replace promotions when few opportunities for promotion exist. In general, merit pay ensures that compensation growth keeps on track with career development. Unfortunately, merit can often feel less like a reward and more like a COLA if everyone gets an increase of around 3% plus or minus a percentage point or two.

Promotions: The most rewarding form of base pay increase tends to be a pay raise that comes with a promotion to a new position of higher seniority. Pay raises associated with promotions tend to be larger than typical merit pay increases because they are reserved for exceptional accomplishments that take significant time and effort. Promotions encourage employees to work hard for the future, and they reward loyalty, so providing options for frequent promotions can be a powerful tool for inspiring long-term thinking and sustainable effort.

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Base Pay Alone Won't Improve Performance, Recruiting or Retention

How much does an employee's satisfaction with their base pay affect their job performance?

The answer is: Base pay matters, but it isn't a silver bullet for motivating performance. A robust meta-analysis of 35 years of pay studies shows that employee satisfaction with base pay has an inconsistent — or, at best, modest — relationship with performance (Williams et al., 2006).

The impact of base pay on performance varies by job type, tenure and type of metrics associated with merit increases (Nyberg, Pieper, & Trevor, 2016). For instance, no form of base pay is a significant predictor of subjective performance measures, such as performance ratings, but merit pay is a significant predictor of performance when objective metrics are used. Merit pay also has an increasingly stronger influence on performance the longer an employee has been achieving merit pay successfully within the system.

Performance aside, base pay does affect attraction and retention outcomes. When higher pay is advertised for a role, a larger and higher-quality applicant pool tends to apply for the opening (Chapman, Uggerslev, Carroll, Piasentin, & Jones, 2005; Dal Bó, Finan, & Rossi, 2013; Rynes, 1987).

Offering higher base pay is particularly effective at persuading employees to accept a job offer when it includes a clear plan for career advancement (Chapman et al., 2005; Dal Bó et al., 2013).

Similarly, both the amount of base pay and satisfaction with base pay are predictive of employee turnover, but only modestly (Griffeth, Hom, & Gaertner, 2000).

However, **the best predictors of effective attraction and retention strategies are nonpay factors**. Effectively attracting and signing employees are most strongly related to job and organization characteristics, recruiter behavior, and perceptions of fit to the role (Chapman et al., 2005; Dal Bó et al., 2013). The best predictors of retention include overall job satisfaction, organizational commitment, work environment, stress and workgroup cohesion (Griffeth et al., 2000). Therefore, organizations should be sure to invest in these areas — not just compensation — when formulating strategies to win the war for talent.

Key Considerations for Base Pay

- Base pay signals to employees that they are valued, and it incentivizes them to accept a job, stay and build a successful career.
- Base pay alone won't inspire employees to continually improve.
- Merit pay has a stronger influence on performance as employees become experienced with the rewards system.
- Effective pay conversations are essential to helping employees appreciate their pay.
- Good pay alone is unlikely to motivate exceptional performance in the absence of good management, role fit or a healthy team environment.

Action Items for Leaders

- Make a plan for conducting regular market pay studies to inform your compensation strategy and manager conversations.
- Teach managers to have effective pay conversations to improve perceptions of compensation.
- Encourage managers to partner with compensation experts when making pay decisions.
- When market-level pay isn't possible, use development, recognition, engagement and pay conversations to explain the value of your organization.
- All organizations need to support pay strategies with science-based management strategies.

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Navigating Incentive Pay

Incentive pay provides short-term rewards for achieving specific outcomes. Examples of incentive pay include goal-based incentives, year-end bonuses for company profitability, signing bonuses and retention bonuses.

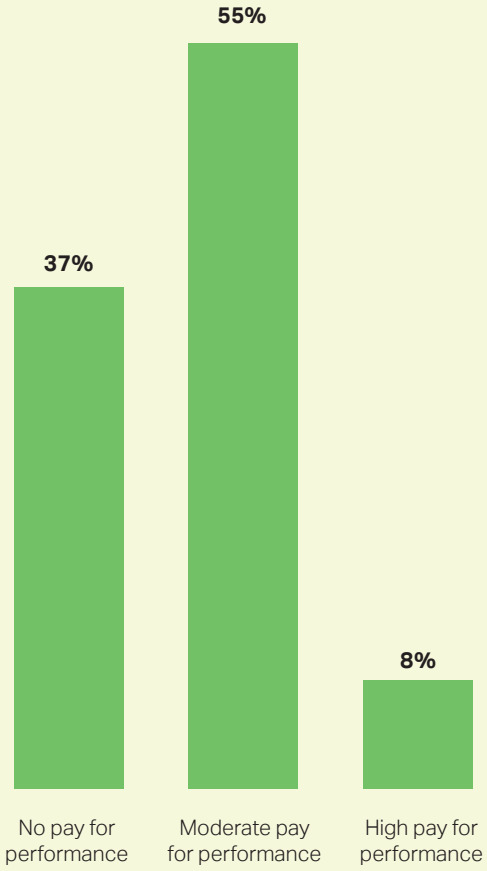
The purpose of incentive pay is to direct employees' attention and effort to key behaviors and outcomes that are important to the organization. In some cases, incentive pay creates accountability for meeting basic performance expectations, and in other cases, it rewards accomplishments considered to be above and beyond what is required to do the job (e.g., stretch assignments, extra duties, optional tasks, exceptional accomplishments).

More Than Half of Employees Want Incentive Pay, but Not Too Much

Gallup data show that 55% of employees want the opportunity to earn a modest amount of incentive pay to supplement their base pay; 37% of employees would take a little less pay to make all of their compensation base pay (i.e., no incentive pay); and 8% of employees would prefer an opportunity to make more total money at the risk of a large proportion of their pay being based on incentives.

COMPENSATION PLAN PREFERENCES OF EMPLOYEES

Which of the following compensation plans would you prefer?



No Pay for Performance
A salary that steadily increases over time, with no opportunity for additional pay based on performance

Moderate Pay for Performance
A smaller starting salary that gradually increases over time but includes an annual performance bonus that has the potential to create more total pay than the first option

High Pay for Performance
An even smaller starting salary with an annual performance bonus that has the potential to create more total pay than the second option

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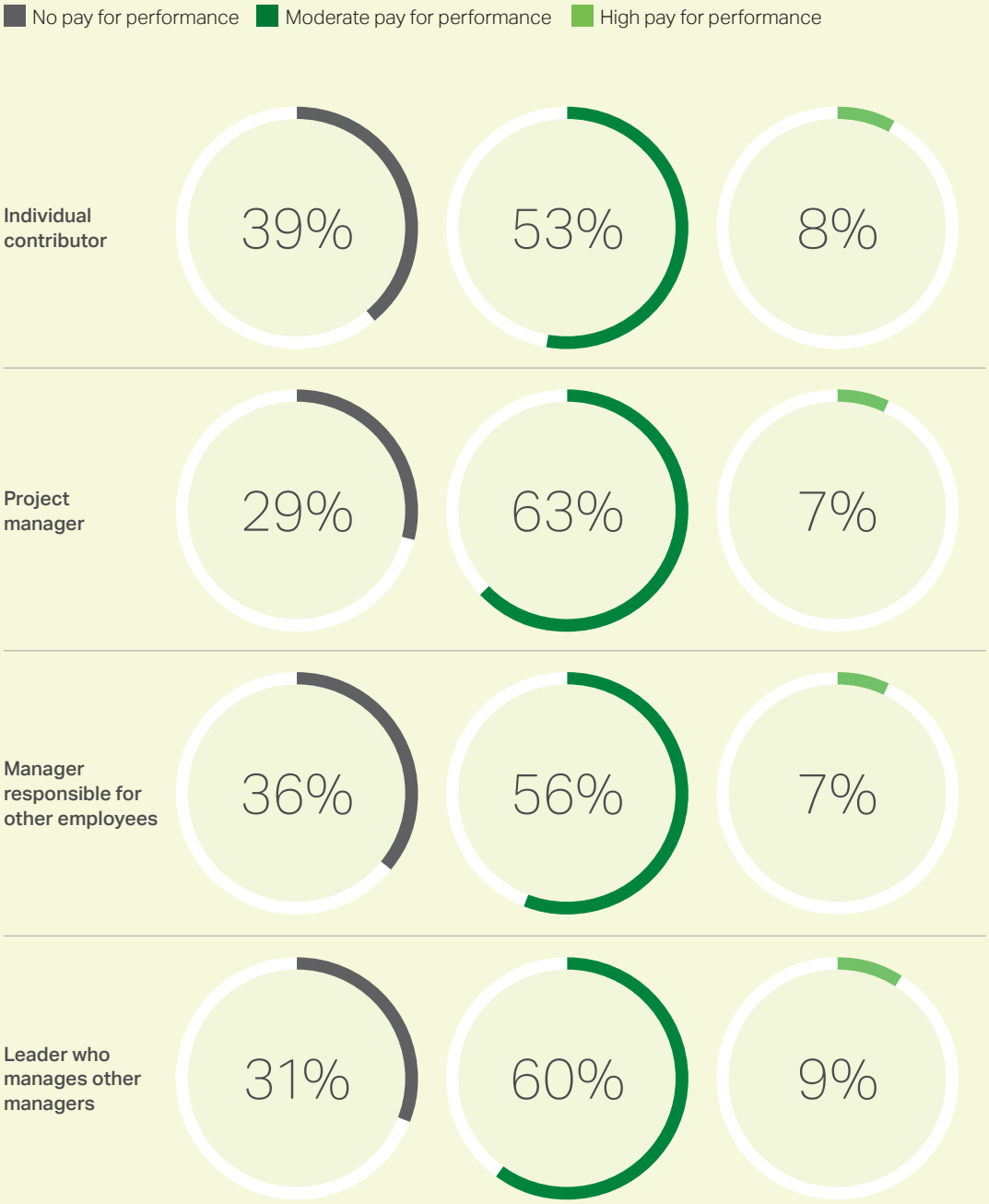
Preferences for incentive pay vary by role and industry, but differences are surprisingly small, with a few caveats. Differences of only 1 to 2 percentage points were observed among leaders, managers, project managers and individual contributors wanting a large proportion of their pay to be incentive pay (range of 7% to 9% across roles). Individual contributors (39%) and managers (36%) are substantially more likely to prefer 100% base pay compared with leaders (31%) and project managers (29%).

COMPENSATION PLAN PREFERENCE, BY JOB ROLE



Due to rounding, percentages may total 100% +/- 1%.

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By industry, the starkest difference occurs between financial and educational services. Those in the finance and insurance industry are about three times as likely as those in educational services to want a high level of incentive pay, at 14% and 5%, respectively.

Overall, these findings reflect a sentiment that most employees want stability and the ability to focus on their work, rather than constantly wondering how much money they will take home by the end of the year. And, **most employees are willing to work harder for the opportunity to earn a little more**.

These findings align with previous Gallup research about financial wellbeing, indicating that people want three primary things from their finances:

- relief from short-term stress over money
- long-term financial stability
- enough money to have great life experiences

The structure of a pay system can have a big impact on all three of the financial wellbeing desires. A fair base paired with a modest incentive system can give employees the autonomy they need to affect their pay through their accomplishments and gain some control over their perceived pay equity. The right incentive structure also can help an employee earn extra money to buy an experience, create more financial security or offset unexpected financial challenges beyond what they planned for due to their base pay.

Incentive Pay Can Produce Unintended Consequences

Incentives drive behavior. The more specific and larger the incentive, the more narrowly employees will focus their behaviors on achieving that outcome. As a result, incentives are challenging to manage for the same reason they can be effective — the more that people focus attention on one outcome, the more likely they are to ignore other important outcomes. This phenomenon is called **"the unintended consequences of rewards,"** and it is notorious for creating systemic bad behavior, like destroying collaboration and encouraging cheating.

A common example is employee incentives that focus on individual performance goals rather than team goals. When individual team members are incentivized to produce as much as they can to maximize their rewards, the employee's success often comes at the expense of collaboration and team responsibilities.

Another unintended consequence of rewards occurs when short-term incentives conflict with long-term outcomes. For instance, sales professionals pursuing an end-of-year quota might claim a sale at the end of the year that won't be realized until the next year, to hit their targets and get their incentive pay. Organizations pursuing a target stock price may be tempted to do the same. This is called the **"last quarter" problem**, and the nearsightedness of such behavior causes problems in the long run because it affects forecasting and decision-making for the next year, which can create ripple effects for long-term growth.

Similarly, when employees are incentivized to sell fast and in volume, they are less likely to spend the right amount of time identifying what's best for their customers, solving their problems and earning repeat business.

As organizations build more of their work around projects, pay per project can make sense. However, it can incentivize employees to move faster or slower than is ideal for completing projects, depending on which option provides them — rather than the organization — the most advantages.

In all, poorly designed incentive plans can hurt productivity more than they enhance it due to unintended consequences like gaming the system, unhealthy competition between teammates, short-sided thinking and the shirking of other job responsibilities. Truly, incentives are not always helpful. Leaders should consider if removing incentives may improve performance in particular situations.

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One important principle to keep in mind is that **incentive pay should match the role**. For example, when creativity and innovation are required, very specific, timebound incentives can erode the creative process because they discourage taking risks, slowing the speed of work, experimenting, iterating and starting over. Jobs that are more basic and require a lot of repetition and/or constant physical exertion, however, tend to benefit from frequent, specific incentives.

Lead With Intrinsic Motivation, but Don't Ignore Extrinsic Motivation

Incentives create extrinsic motivation, which means employees become motivated by the reward they receive (e.g., pay, prizes, time off, trophies). In contrast, employees experience intrinsic motivation when the work itself is motivating because employees enjoy what they do and value their accomplishments.

Research suggests that **intrinsic motivation tends to be more powerful than extrinsic motivation**, partly because it is experienced every day, and partly because people tend to value intrinsic motivators that boost personal value, such as purpose, meaningful work, a feeling of competence and a sense of accomplishment, even more than they value money (Cerasoli, Nicklin, & Ford, 2014).

Naturally, both extrinsic and intrinsic motivation are important. So, which should you emphasize more? Early research suggested that there is great danger in extrinsic motivation competing with and reducing intrinsic motivation. However, a meta-analysis of more than 40 years of research shows that the two can coexist and complement one another (Cerasoli et al., 2014).

The same study suggests that focusing on intrinsic motivation is best when performance outcomes are more out of an individual's control, while extrinsic motivation works best when performance can be accurately tied to specific measures.

Furthermore, intrinsic motivation has a greater impact on quality, while extrinsic motivation has a greater influence on quantity. In any task, one must strike a balance between quality and quantity — and that's what can make extrinsic motivations so challenging to design.

Gallup recommends that leaders design incentive strategies that blend both intrinsic and extrinsic motivation, with a greater emphasis on intrinsic motivation.

Extrinsic Motivation	Intrinsic Motivation
Short-term boost	Continual, everyday benefit
External social validation	Inner sense of meaning and purpose
Best with clear measurement	Best when success is difficult to measure
When quantity matters	When quality matters

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Don't Incentivize What You Can't Measure Effectively

Incentives can be awarded only as fairly and accurately as they can be measured. The first factor that organizations should evaluate when considering an incentive pay strategy is how well they can measure performance and attribute it to each employee.

Equally important, effective incentive metrics also must be:

- highly relevant to the most important responsibilities of a job
- within the control of the employee
- easily understood
- precise in identifying substantially different levels of performance

Unfortunately, good performance measures can be difficult to create. In many cases, metrics that closely describe an individual's performance are not tracked reliably or efficiently by an organization, and sometimes objective metrics do not exist for a role.

Consequently, organizations often settle for using whichever metrics they have available. The problem with this practice is that even if they have good measurement characteristics, the metrics may not sufficiently emphasize the most important responsibilities of the role.

Methods such as a balanced scorecard aim to ensure measurement and incentives are spread across the most critical aspects of a role (Kaplan & Norton, 2001). Similarly, Gallup research based on a study of more than 360 roles emphasizes the importance of measuring three critical types of performance for all roles: *individual achievement*, *team collaboration* and *customer value*.

Gallup research based on a study of more than 360 roles emphasizes the importance of measuring three critical types of performance for all roles: individual achievement, team collaboration and customer value.

As previously mentioned, an emphasis on individual achievements often comes at the expense of team collaboration and customer service. Nonetheless, employees, managers and leaders, alike, tend to agree that focusing on the customer is the most important, followed closely by team collaboration and then individual achievement.

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Using Subjective Measures for Incentive Pay

It's important to capture performance using subjective observations from managers, colleagues and customers, yet subjective observations have earned a bad reputation, and rightfully so, as performance ratings given by managers tend to be riddled with bias.

For example, some managers have a habit of retrofitting performance ratings to match how much they want to pay their employees. That is, if pay or promotion is contingent on receiving a certain rating, managers often give the rating that allows them to make the compensation adjustments they desire, instead of basing the rating on actual performance.

However, when managers' subjective observations are substantiated by quantitative metrics and the subjective observations of colleagues and customers, evaluations become a much more accurate, reliable and complete picture of performance.

You ultimately need both: Objective metrics ground the subjective experience, while subjective observations give context to objective measures.

Key Considerations for Setting Incentives

- Incentive pay tends to have a modest impact on performance.
- Incentive pay can have a significant effect on performance when it focuses on key objectives, as long as poorly measured, misaligned incentives don't negate the positive effect of incentives on overall performance.
- Managing through incentives is challenging because of unintended consequences of rewards. Individual-level incentives often negate teamwork and distract one from doing what is best for the customer.
- Incentives certainly catch the attention of employees; the important thing is that they are supplementary — not in conflict with stronger intrinsic motivators, like engaging work, employee development and recognition.

Questions for Leaders

Review your current incentive-related metrics.

- How much are incentives within the employee's control?
- What is being de-emphasized by the incentives?
- Do incentives match the most important responsibilities of the job for your employees?
- Do they align with your stated purpose, brand and culture?
- How might your incentives influence team collaboration and customer service?

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Selecting Perks and Benefits

Compensation is about more than pay. Gallup research shows that income can increase happiness and emotional wellbeing. That said, daily feelings of positive emotions tend to level off for people who make an annual income of $75,000 or higher (Kahneman & Deaton, 2010).

Employees don't go to work every day gauging their level of effort and commitment relative to their pay. They go to work and experience the work tasks, environment and interactions with coworkers, and they experience the benefits of having a good job that improves their personal life daily.

For this reason, employees' perks and benefits substantially affect how employees experience their compensation.

- **Perks** tend to be "nice-to-have" additions to the pay and benefits offerings that make the job itself more attractive and help employees perform their work better, such as flextime, remote working, wellness programs, standing desks, casual Fridays, free lunches, nap rooms and transportation.
- **Benefits** encompass financially valuable rewards that supplement base pay and cover basic living costs that employees would otherwise have to self-fund, such as health insurance, life insurance, disability insurance, 401(k) plans and flexible spending accounts.

In our experience working with clients, we sometimes find that HR leaders are very proud of their perks and benefits package — yet when we survey employees, we find that many employees are not aware of all the perks and benefits offered, and many managers do not know about all of the benefits that could help their direct reports.

Furthermore, when we ask employees to rank which benefits are most important, their list often does not match what is offered or invested in most heavily by the organization. This gap represents both unfulfilled employee needs and a poor return on investment.

To create a benefits package that effectively attracts and retains talent, leaders need to understand what their employees want and how those perks and benefits differentiate their total rewards package from competitors.

Although leaders use various philosophies for deciding which perks and benefits to select, they must remember that add-ons to base pay support the long-term performance of employees. Leaders will get the most out of their employees over the long term when they provide a benefits package that helps them live a thriving life.

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EMPLOYEES WOULD CHANGE JOBS FOR PERKS AND BENEFITS CLOSELY RELATED TO THEIR QUALITY OF LIFE

Organizations Falling Short			
	Employees who would change jobs to have %	Employees who say their company offers %	Difference (percentage points)
Flexible working location where you can choose to work off-site full time	35	12	-23
Profit sharing	40	20	-20
Flexible working location where you can choose to work off-site part time	37	24	-13
Retirement plan with a defined benefit (pension)	51	43	-8
Monetary bonuses	54	47	-7
Flextime	51	44	-7

Organizations Meeting Needs			
	Employees who would change jobs to have %	Employees who say their company offers %	Difference (percentage points)
Retirement plan/401(k) with employer match	50	68	+18
Health insurance	61	91	+30
Insurance coverage other than health insurance (dental, vision, life)	48	82	+34
Paid leave (sick days, medical or personal leave)	48	86	+38
Paid vacation	53	92	+39

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Use Predictive Analytics to Choose Perks and Benefits That Work

Picking perks and benefits doesn't have to be a guessing game. Predictive analytics provide an effective and cost-efficient means for identifying which perks and benefits people want and which ones lead to improved recruiting, engagement, retention and performance.

To determine the ideal mix of benefits, an employee study must show how much employees value certain benefits and how strongly those desires correlate with job satisfaction and real behavior (i.e., likelihood to stay with the organization), not just what employees say they want.

Gallup's workplace analytics team has identified four categories for classifying how important specific perks and benefits are to employees and job seekers:

- **basic:** the most common perks and benefits that most employees say they would change jobs to get
- **important to some:** perks and benefits that fewer organizations offer and a segment of employees say they would change jobs to get
- **differentiating:** perks and benefits that a segment of organizations offer, most employees say they would change jobs to get, and correlate most highly with employee engagement and wellbeing
- **added value:** perks and benefits that some organizations offer and that correlate with employee engagement and wellbeing, but that employees are less likely to say they would change jobs to get

The **basics** are the must-have items that many employees would change jobs to obtain. They are also among the more common perks and benefits that organizations offer. They do not set organizations apart but are essential in attracting and retaining employees. Perks and benefits in this category include:

- retirement plans with an employer match
- health insurance
- paid leave
- paid vacation
- insurance coverage other than health insurance

The **important to some** perks and benefits are not offered as widely as basic benefits, and not all organizations can realistically implement them. Between 29% and 54% show a willingness to change jobs to get perks and benefits in this category, such as:

- profit-sharing
- flexible work location
- paid time to work independently on a project of the employee's choosing
- monetary bonuses

The sole offering included in the **differentiating** category in our study is flextime, which allows employees to have some choice in the time of day they work. Fifty-one percent of employees say they would change jobs for this benefit, while 44% say their company offers it.

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Employees whose organization allows them to change their hours and schedules as needed have higher levels of engagement and wellbeing than other employees. They may be more likely to strongly agree that a manager who lets them set their own schedule cares about them as a person. They can leave work at 4 p.m. instead of 5 p.m. most days so they can get in a workout or volunteer, giving an added boost to their physical and community wellbeing.

Flextime and remote working are among the perks that have given employees the ability to balance home life, geographic limitations and work demands better. With these perks, employees have the opportunity to save commute time and choose an environment where they can concentrate best.

Flextime and remote working are among the perks that have given employees the ability to balance home life, geographic limitations and work demands better.

Improving job flexibility is also a solution for historical workplace problems, such as women struggling to advance because they felt they had to choose between leaving the workplace to raise a family and advancing in their careers.

From a cost-cutting perspective, flexibility and remote working help alleviate overhead costs associated with being bound to brick-and-mortar locations and large office spaces. From a recruiting perspective, providing employees with flextime and remote working options is attractive to highly talented job candidates and expands the labor pool for organizations beyond a small geographical area.

Added value perks and benefits fall outside the previous categories but still show correlations to higher levels of engagement and wellbeing. However, they are less of a differentiator than flextime because fewer employees say they would change jobs for them. These perks and benefits include:

- reimbursement of fees to attend professional conferences
- sponsorship of local organizations or events that are important to the employee
- flextime during regular office hours to volunteer
- hardware or software reimbursement
- financial planning or coaching
- professional development programs

Although these items are not strong drivers of attraction, they can improve employees' connection to their work and workplace, as well as their holistic wellbeing. For example, employees who go to professional conferences may be more likely to strongly agree that they have opportunities to learn and grow or that someone encourages their development. And those who receive reimbursement for hardware or software purchases or who meet with a financial planner can potentially improve their financial wellbeing.

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Communicate and Live Your Employee Value Proposition

Once organizations select the perks and benefits that best reflect their culture and appeal to potential job candidates, they should communicate those benefits as part of their attraction strategy. They should highlight the perks and benefits that serve as differentiators to the types of employees they are trying to recruit, and they should create messages that highlight flexibility, financial stability, family-friendly policies, and other perks and benefits that are most likely to draw the candidates they want.

Once employees are on board, their decision to stay or exit an organization often involves multiple considerations. The lack of a specific benefit like flexibility at their current company may be enough to push them to leave, but other factors — including their level of engagement — also influence their decision. **Benefits are not enough to retain your best employees if you fail to deliver on the psychological necessities of work, particularly effective management and meaningful relationships.**

If employees don't have great managers, if they don't know what's expected of them or if they are not in roles that match their talents, then the longest possible list of perks is not going to be a cure-all. Employees who are already on the fence regarding engagement may actually regard pingpong tables and free meals as an empty gesture — a Band-Aid fix for a much bigger problem.

Key Considerations for Choosing Perks and Benefits

- Perks and benefits should be considered as part of your overall performance strategy because they provide a long-term investment in your employees' wellbeing, which is a foundational aspect of high performance.
- Flexibility is a key differentiator for employers in today's competitive talent marketplace.
- Perks and benefits can attract candidates to your organization, but if you don't provide an engaging employee experience, better perks somewhere else can be a reason that employees leave.
- If you don't communicate and live your employee value proposition, employees won't do it for you.

Questions for Leaders

- Do the perks and benefits you are offering match what employees believe is important to them?
- Which perks and benefits correlate with actual behaviors — which ones influence their likelihood to stay or change their job?
- How does your employee value proposition relate to your employee experience and your employer brand?

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Because base pay, incentive pay, and perks and benefits have a unique effect on each employee, it is important to carefully consider the intent and possible outcomes of each component. Every employee needs a compensation plan that is fair, motivates them to succeed and supports their wellbeing over the long term.

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Tailoring Total Rewards to Your Talent Management Strategy

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A total rewards package encompasses all forms of compensation that employees receive, including perks and benefits. Base and incentive pay are the foundation of most total rewards packages. Finding the right balance between base and incentive pay isn't an exact science and depends on many factors, from the nature of job expectations and constraints to how accurately performance can be measured for a job.

Unfortunately, finding the right mix of total rewards isn't as easy as asking employees what they want. **Employee preferences certainly matter, but having the analytics to understand which rewards result in the right outcomes is even more important.**

For instance, when employees are asked why they would leave their current employer, pay is among the most common responses. Yet, although employees often mention pay as a top reason for considering leaving, research shows that it is not ultimately the strongest predictor of their actual decision to leave — usually the strongest predictors of turnover can be traced back to bad management and culture, followed by fit to role and bad teammates (Griffeth et al., 2000; Harter, Hayes, & Schmidt, 2004; Harter, Schmidt, Agrawal, Plowman, & Blue, 2016).

Listen to employees, but beware of what people say, and discern whether their comments translate to what they actually do. Compensation strategies should be calibrated continually to organizational performance strategies based on facts and analytics, rather than reactionary decision-making, hunches or a few top-of-mind examples.

The key to properly motivating employees through pay is to create a system that is:

- understandable
- consistent
- fair
- accurate
- within the employee's control

The system must reflect the work an employee does daily, emphasizing the things that matter most in the role.

An additional challenge to building an effective compensation system is that it must be flexible enough to take into consideration individualized aspects of performance, such as employee tenure, job type and individuals' expectations, while being relatively simple and consistent across similar roles.

The power of choice is what makes individualization possible and, essentially, allows each person to feel cared for and see a future that is appealing to them.

The best human capital strategies are precisely tuned to find employees who are a good fit for their role and the culture of the organization, and then the strategies engage, empower and develop employees' strengths throughout the employee life cycle.

A TOTAL REWARDS PROGRAM ACROSS THE EMPLOYEE LIFE CYCLE

Human Capital Strategy	Attract	Hire	Onboard	Engage	Perform	Develop	Depart
Total Rewards Program	Competitive pay + differentiating perks and benefits	An understanding of desires + a personalized offer	Maximization of the total rewards package	High engagement that beats competitors' perks	Base pay + short-term incentives	Merit pay + promotions	An understanding of pay factors that correlate with turnover
Key Employee Question	What are you offering?	Is this right for me?	What are the details?	Do I feel connected?	What's my motivation?	What's my future?	Why should I stay?

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There Is No Perfect Mix, Only What Supports Your Strategy

If organizations had no limitations, they could make an irresistible offer to every top candidate. Unfortunately, most of us work in organizations that require trade-offs and tight budgets. As a result, organizations must explore innovative options for repackaging their finite resources in ways that work best for their situation.

The good news is that organizations can create effective and attractive compensation packages through different strategies. Research examining how base and incentive pay holistically affect performance shows that they can compensate for one another (Nyberg et al., 2016). Lower-than-expected base pay can be at least partially recovered through incentive pay that the company can afford to provide when financial goals are achieved. Conversely, exceptional base pay can negate employees' thirst for more incentive pay that may elicit unintended consequences.

Organizations must explore innovative options for repackaging their finite resources in ways that work best for their situation. The good news is that organizations can create effective and attractive compensation packages through different strategies.

Every organization has its own set of challenges and opportunities. The best organizations figure out how to align the pieces of their compensation plan in a way that attracts the right people to join and stay for the right reasons. Alignment is not merely about fixing problems; it's about figuring out where your organization can play strongest.

Here are four approaches that organizations can take to align their compensation and talent strategies:

- Offer high base pay to emphasize meaningful work and collaboration.
- Introduce highly lucrative incentives for individual performance.
- Provide enticing perks and benefits to attract talent.
- Create a culture of purpose and development.

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Strategy #1

OFFER HIGH BASE PAY TO EMPHASIZE MEANINGFUL WORK AND COLLABORATION

Some organizations offer base pay that is far above market as a way to shift the focus toward purposeful work and team success. By giving employees exceptional base pay and ensuring that employees know how their pay compares with the market, organizations can forget about unintended consequences of rewards and employee complaints about not getting paid enough for their efforts. Instead, they can focus on meaningful work and great collaboration.

Even without individual incentives, employees still must be held accountable for their work, and they benefit from having a clear understanding of how to improve their performance. Team rewards or incentives for companywide growth may be included with high base pay to hold employees accountable for high performance and inspire extra effort without introducing unintended consequences.

When organizations consider removing performance ratings from their performance management system, a compensation approach that reduces the focus on incentive pay may make sense. Organizations considering going without ratings should first consider if they can continue to use the same compensation strategies and good, quantitative measures of performance. If not, focusing primarily on base pay or using incentives paid for team or organizational performance might be a better fit.

Anytime metrics are removed, it is critical to maintain some system that tracks performance and creates accountability through effective management conversations.

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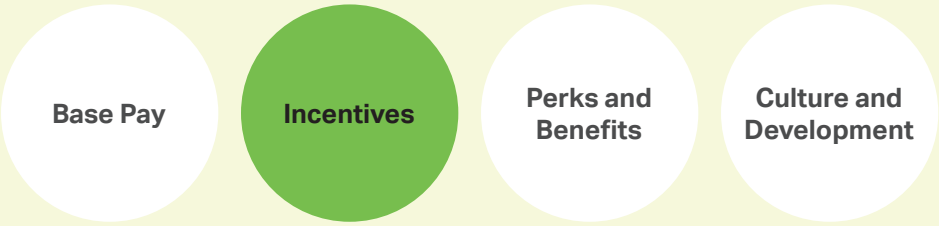
Strategy #2

INTRODUCE HIGHLY LUCRATIVE INCENTIVES FOR INDIVIDUAL PERFORMANCE



Some business situations call for high incentives. For example, sales roles and the financial industry typically have high financial incentives. Some reward programs include infrequent financial incentives that accompany recognition of milestone accomplishments, and some programs provide frequent performance incentives that are awarded upon completion of smaller goals or projects.

These types of incentives work well when employees are balancing only a few different types of tasks, responsibilities and projects. They encourage employees to focus on specific aspects of work but can make it difficult to balance competing priorities.

It's important, however, to keep in mind key principles and cautionary tales we mentioned previously:

- Financial incentives typically should be used for short-term motivation.
- The greater the incentive, the more likely it will distract employees from other important aspects of their role.
- Extrinsic motivations like pay should not overpower intrinsic motivations like purpose.

Short-term incentives are less advisable for complex roles where the nature of work changes often or the processes for accomplishing work vary. And, as previously discussed, financial incentives can introduce potential unintended consequences. Short-term rewards motivate employees to make intense, short-term, focused efforts but also can direct attention away from other important tasks, stifle creativity, lead to burnout or cause employees to lose sight of long-term goals.

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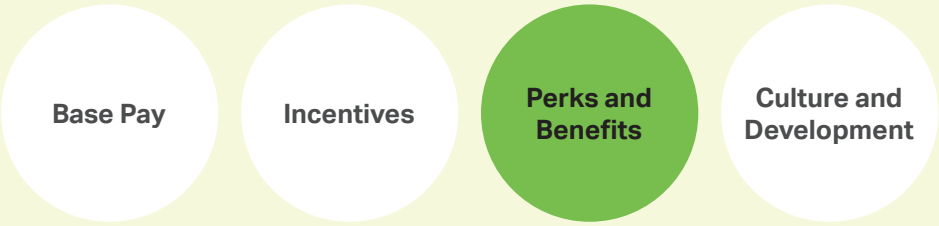
Strategy #3

PROVIDE ENTICING PERKS AND BENEFITS TO ATTRACT TALENT



Organization may choose to emphasize exceptional perks and benefits:

- A tech startup may offer stock options that could be lucrative if the business is successful.
- A traditional large corporation may offer a generous pension and comprehensive health insurance.
- A small business could highlight its casual culture, free lunch or flexibility.

There is no right or wrong approach here. For some employees, long-term security may be valuable. For others, spending time with their children may be the top priority. Various perks and benefits matter greatly to potential employees, so it is important to understand what your organization's strengths are and align those strengths with the desires of high-talent individuals.

Various perks and benefits matter greatly to potential employees, so it is important to understand what your organization's strengths are and align those strengths with the desires of high-talent individuals.

One note of caution: Attractive perks and benefits may get employees in the door, but they won't necessarily increase retention, and they are unlikely to motivate employees to be more productive. Investments in engagement, performance management and development likely will be required for improving business outcomes such as turnover and productivity.

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Strategy #4

CREATE A CULTURE OF PURPOSE AND DEVELOPMENT

Other organizations may follow a different path, emphasizing intrinsic motivations and personal development as their key differentiator. These organizations want employees who are inspired by the organization's mission. They also make a promise to their employees that they will deliver a culture that is meaningful and rewarding every day.

This type of culture may include:

- frequent recognition from managers and peers
- close, warm relationships at work
- supportive, collaborative teams
- opportunities for education, growth and development
- a feeling of mission, purpose, changing the world
- connection to community, opportunities to give back

Some organizations are starting to treat employee development and career pathing like a valuable perk, instead of something that is taken for granted. The current state of employee development is a pervasive shortcoming of most talent management strategies. Yet, employees value development so much that they tend to list it as one of the top factors that attract them to a job, as well as one of the top reasons for leaving a job.

Organizations that invest in manager and employee training that supports development have a rare advantage in today's talent marketplace.

Employees value development so much that they tend to list it as one of the top factors that attract them to a job, as well as one of the top reasons for leaving a job.

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The Right Compensation Strategy Puts the Focus on the Work

Getting your organization's compensation plan right can be challenging. However, Gallup's research reveals fundamental principles for an effective strategy:

- Offer competitive base pay when possible and explain it to the employee.
- Equip managers with the right tools and expectations to have effective, *ongoing* pay conversations.
- Provide some incentives — but not too many — for extra work. Intrinsic motivation is more powerful.
- Consider the unintended consequences of rewards and determine whether team rewards can help mitigate those concerns.
- Add perks and benefits that employees truly want and that are predictive of attraction and retention.
- Allow job flexibility in the form of flextime and remote working options; it is an employee desire and expectation.
- Provide opportunities to learn and grow — a top reason for joining, being engaged at and staying at an organization.
- Remember that the top factor for driving effective performance and culture is not pay — pay must support performance and culture-related strategies.

Organizations should invest in and emphasize the aspects of their total rewards package that appeal to talented workers and are differentiators from their competition. But the right compensation plan also should naturally complement the work an employee does regularly, and it should direct an employee's focus to the aspects of the job that are most relevant for high performance and employee success.

In other words, compensation should fit the work so well that many of the frustrating, awkward conversations about pay disappear, leaving current work and future performance at the center of the conversation.

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