Pay for skills: A key component of a skill-development culture

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 importance 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.

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.

To deliver on the primary aim 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 align 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.

AI at work

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

Mercer

Mercer helps organizations understand how to maximize the use of skill insights through a combination of advisory services and products including.
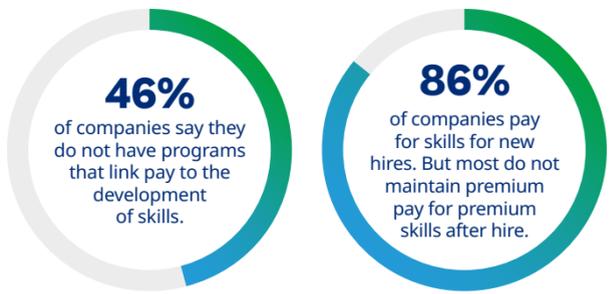
Mercer Skills Library is a market-derived skills taxonomy — curated by Mercer and mapped to the Mercer Job Library — which can be applied to many talent-related use cases, including pay for skills.

Mercer Skills Pricer is powered by a proprietary algorithm using 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.

46%
of companies say they do not have programs that link pay to the development of skills.

86%
of companies pay for skills for new hires. But most do not maintain premium pay for premium skills after hire.

Source: Mercer survey data.

Five steps for pay-for-skills 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? How confident are you in your current talent supply approach, and how successful have your hiring decisions been? Could your efforts be more successful if you relied more on internal talent mobility?

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 stay consistent with your employer brand?

3 Make it 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 Remember, it's personal
Unlike changes in performance management or employee development plans, making changes to pay can quickly become highly 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.

Five questions to consider

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?

Is your pay philosophy aligned with your workforce planning approach? Is it dynamic enough to enable all strategies — build, borrow, buy and bot?

How well do you currently understand external skills trends, including the supply and demand for skills most relevant to your business?

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?

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 any such messaging?

To learn more, read **"Future-proof your organization: Spotlight on pay for skills"**