A young woman with long dark hair and black-rimmed glasses is smiling warmly at the camera. She is wearing a dark blue polka-dot button-down shirt and is seated at a desk, typing on a silver laptop. The background is a bright, modern office space with a green chair and a white desk. The image is framed by decorative elements: a vertical bar on the left with orange and purple diagonal stripes, and a horizontal bar at the bottom with purple and orange diagonal stripes.

# Viewpoints Q&A: Why now is the time for skill-based pay programs

## Summary

To attract and retain talent with high in-demand, business-critical skills, we need a skill-based reward program based on robust market data and a clear governance framework.



Change has emerged to become the defining constant in organizations today. An obvious change is the widespread adoption of hybrid and remote work. Additionally, the pandemic accelerated the use of automation, changing who does the work and how.

To succeed in this increasingly digital environment, organizations need talent with new skills. New jobs are appearing in the organization, and existing jobs are transformed to meet the needs of a digital environment.

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**Across these challenges, we see the topic of skills is quickly becoming a common denominator or for some ‘the holy grail’.**

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A shared and common understanding of the value a focus on skills can bring is critical. And practical use cases will prove why skills are not just the flavor of the month, but when considered carefully, a differentiator to attract, retain and engage employees.

Many organizations start their focus on skills by introducing a skills layer aligned to their job architecture.

This inevitably leads to questions about total rewards:

- Should we be rewarding for skills?
- Will this help us stay competitive?
- Will we be able to find and keep the right talent?
- How are we positioned to meet the urgency of demand, and what changes are we making to do so?

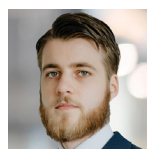
In this roundtable, we asked our subject matter experts about key topics to consider when developing a skill-based pay program.



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## If skills are the new currency, how does this impact rewards?

**Hathaway:** Many organizations are reviewing the skills required to get work done. Some of the more innovative organizations are introducing a skills layer alongside the job architecture to build a better understanding of the skills they require. Additionally, a skills layer can empower employees to take ownership of their careers.

**The stronger focus on work and skills instead of the traditional concept of a job requires changes in how to approach total rewards.**

Some clients ask “Is our approach to rewards still fit for the future given that it mainly focuses on the job?”

We see that the stronger focus on skills is just one of the many forces that drives the need to review the rewards strategy. The use of new sources of talent, the changing expectations of employees and a stronger emphasis on diversity, equity and inclusion (DEI) are also driving changes to the reward strategy.

**Klompfen:** Many companies that are considering skill-based pay do not yet have a complete overview of the skills required to get work done. Also, they often lack a complete understanding of the skills their employees have. Organizations are driven by a demand to hire and retain talent that can contribute to their digital transformation journey.

Specific skills can significantly impact how competitive pay is defined. As a result, job candidates with "hot" skills are asking for higher salaries than most organizations usually pay. These companies lack market insight to justify paying these higher salaries. Unfortunately, traditional compensation surveys don't provide a detailed view of required skills.



## How might this missing skills component in traditional benchmarking affect how organizations set their pay levels? And how can organizations overcome these challenges?

**Wisper:** Skills can impact salary demands, so organizations need a strong understanding of how skills impact competitive pay levels. With such insight, employers can hire and retain special talent with hot skills in a very challenging labor market.

Also, the business often expects HR to design different rewards to attract and retain certain types of talent. Such attraction and retention tools may include hiring bonuses, enhanced equity or simply paying outside the normal range. These special rewards create complexity, requiring a new framework and governance. HR needs the right data insights to make these decisions consistent within the updated framework.

For example, clients often ask “Are we providing a hiring bonus or retention award because the individual has a desirable skill set that is scarce in the market, or because the individual might be a good negotiator?”

Having a compensation framework with guiding principles on what reward elements, data and how and when they are applied ensures that this question and others are answered effectively and consistently. Fair pay legislation will make this even more important. Organizations with pay differences that are not supported by a framework and data will create unnecessary risks.

**Klompfen:** Having access to reliable insights on skills is critical for decision making. For decades, organizations have used compensation surveys to inform pay-decisions. Similarly we see more organizations now accessing this type of insights for skills via solutions such as [SkillsVue](#).

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### By understanding which skills are high in demand, HR can determine how to structure their reward-exception process and design a separate framework for reward differentiation.

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By the way, we don't believe that organizations are completely moving away from the more traditional role-based pay. Skill-based pay can be seen as an additional lever on top of the reward strategy that gives organizations more flexibility and agility to differentiate pay for skills that are business critical and command a premium from a market perspective. This is important for all parties – leadership, HR and even employees – to understand.



When talking about skills, many organizations often focus on the hard or technical skills. When considering a skill-based pay approach, how should organizations balance these hard skills with soft skills?

**Klompen:** Driven by the limited supply and strong demand for technical and digital skills, many organizations focus their rewards exceptions on this critical segment. Due to a shorter half-life of these skills and constant developments in this field, we see that the supply-demand equation is driving potential pay premiums.

When looking into the total scope of skill-based pay, it's important to note that we are talking about a smaller portion of the workforce. From our perspective, traditional role-based pay tends to work for the majority of jobs. However, for a small segment of hard-to-recruit and retain roles or for specialist skill sets that are hot, companies may need to review their pay and rewards approach.

**Hathaway:** The reward interventions for these so-called hot technical skills tend to focus on solving an immediate need. In contrast, when we talk about soft skills, there are different dynamics in play. These skills are harder and less relevant to quantify from a market pay perspective. The output tends to impact organizations in the longer term rather than immediately. The reward approaches that organizations use to pay talent with these soft skills tend to be more aligned to how they reward for individual performance, the longer term career growth and enhanced recognition.

**There is no one-size-fits-all approach to rewarding for different skills. It all starts by understanding the challenges. Rewarding for skills is a means to achieve an organization's strategic objectives.**



**Could you share some of the factors that play a role in determining potential solutions to the unique situation and needs of each organization? Which factors drive how existing structures need to evolve to accommodate for skills?**

**Bienstock:** Organizations are seeking to ensure that they have the right talent with the right skills, when and where required. To achieve this, they need to analyze their work strategies and the skills required to get work done. The next step is to consider how the work is done, thinking through questions around:

- In-house vs. outsourced
- Human vs. automation
- Learning-oriented (build) vs. hiring-oriented (buy)
- Structured work vs. agile work environment

These are all complex factors and are intertwined with each other. Such an analysis will inform the work strategy and in turn translate to talent and reward strategies.



**There is a wide variety of rewards vehicles that can be used to pay for different types of skills. What are some of the factors to consider when selecting an appropriate type of reward?**

**Wisper:** We see that organizations are using diverse rewards vehicles to pay for hot skills, including:

- Anchoring employees to the higher end of the salary band
- Introducing a premium salary structure
- Offering a one-time hiring bonus
- Providing a monthly skill premium allowance

To determine which approach works for your organization, start by defining the problem you are trying to solve. If you have attraction issues, then a hiring bonus or equity might help in the short term. If retaining a specific group of employees is the issue, then a retention incentive can offer relief, for example a deferred bonus or long-term incentive (LTI).

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**Similarly, you can use a skill premium allowance to encourage and incentivize existing employees to reskill or upskill.**

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It's important to consider the wider impact of any reward programs that address current issues. A skill might be hot today but could cool off in two years. Some rewards may lead to increased fixed costs (both direct and indirect costs). Other interventions might only increase costs in the short term (as they are a one-time lump sum, or only for a period of time).

**Any deviation from the usual rewards program will likely come with a larger administrative burden, unintended risks or stakeholder challenges.**

Skills that have had stable premiums over time and are part of existing market benchmarks lend themselves to fixed pay commitments through existing pay structures and merit and promotion models. In contrast, hot skills which are more volatile may involve temporary payments that might not become part of existing pay progression models.

No matter which approach you consider, a core to success is to think through the issues in order to design the best solution and governance process. The most successful organizations tend to start small with a part of the business that is open to engaging in the topic of skills. Then they review, refine and broaden the program to other parts of their organization as needed. This fits with many organizations desire to be more agile, to experiment and pilot.



**When organizations review what their approach to rewarding for skills should look like, what related topics should they keep a close eye on?**

**Bienstock:** If we are looking into the short-term challenges that organizations are facing, there remains a strong focus on hiring and retaining digital talent, which we expect to continue for the foreseeable future. In addition to the skills perspective, we also see that companies are now confronted with different talent competitors for digital talent than for other roles. Having a data-driven approach to understanding where you are attracting employees from and losing them to will help you better understand the strengths and opportunities of your total rewards approach.



From a practical pay perspective, designing a skill-based pay framework that uses a range of appropriate and targeted pay levers (as Lori Wisper described) will give you agility and flexibility that will improve your total rewards strategy. Today you might use it for digital skills, but in a few years other skills such as R&D, engineering or creative might require a differentiated approach. If you have a data-driven framework, you will be better able to differentiate rewards for critical skills and have a clear reasoning supported by data for rewards exceptions.

**Hathaway:** Another core topic that we see organizations increasingly focus on is pay progression. Organizations realize that they have competitive pay structures and policies, but how employees develop and grow in the organization and how their rewards grow with them is often broken. Companies are rethinking what career progression means – vertical or lateral, traditional or non-traditional – and at the same time they need to think about how they reward for this progression. Employees often complain that the only way they can get the career and pay progression aligned to their expectations is to find a new employer.

From a longer-term perspective, there are other forces in play such as the broader work strategy, high inflation rates or moving to more agile ways of working. All of these lead to organizations to review and reimagine their approach to work and rewards. Any framework that you design should not only be fit for today, but also be a tool for rewards professionals to use for the longer term.



### Conclusion

Skill-based pay can add value to your organization. Start with the business challenges you are trying to solve.

With that understanding, you can make informed decisions to define the reward mechanisms required to drive success. However, remember, skill-based pay is unlikely to replace your role-based pay foundation. But when designed appropriately, it is a valuable and critical tool for HR professionals to differentiate pay in a structured, objective and consistent manner.

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