

Spring Warming, Promotions and Pay

Retention concerns
and the temperature
of the labor market
typically go hand in
glove, with implications
for total rewards.

Signs of the U.S. labor market's move from cool to tepid, and perhaps even toward springtime warming, are growing in number. So maybe it's time to consider dusting off and sprucing up retention strategies, along with other spring-cleaning chores.

More than seven years after the start of the Great Recession, the U.S. labor market has still not regained its pre-recession strength; income growth for American households remains soft. But the worst is well behind us, and stable improvement in top-line indicators continues to be the trend. Unemployment is solidly below 6 percent. The private sector quit rate (the number of voluntary separations, excluding retirements and strikes, as a percentage of total employment) is back up to levels not seen in six years. And the year-over-year increase in the employer cost of employee compensation is holding at a little more than 2 percent. (See Figure 1. Data accurate as of April 7.) As unemployment worries start to soften, employees start to consider greener pastures, driving up turnover and increasing employers' retention concerns.

Promotion, Please

More promotions are one outcome of a warming labor market. WorldatWork's most recent *Promotional Guidelines* report, published in February, said that an average of 9 percent of employees receive promotions in respondents' organizations, up from 7 percent in 2010. There has been, however, a significant reduction in the percentage of organizations that allowed promoted employees to be further eligible for the nearest merit increase — just 33 percent of respondents noted this was current practice, down from close to half (46 percent) in 2010. Effectively, in these organizations, promotion has become the merit reward, not an independent and amplifying recognition of ability.



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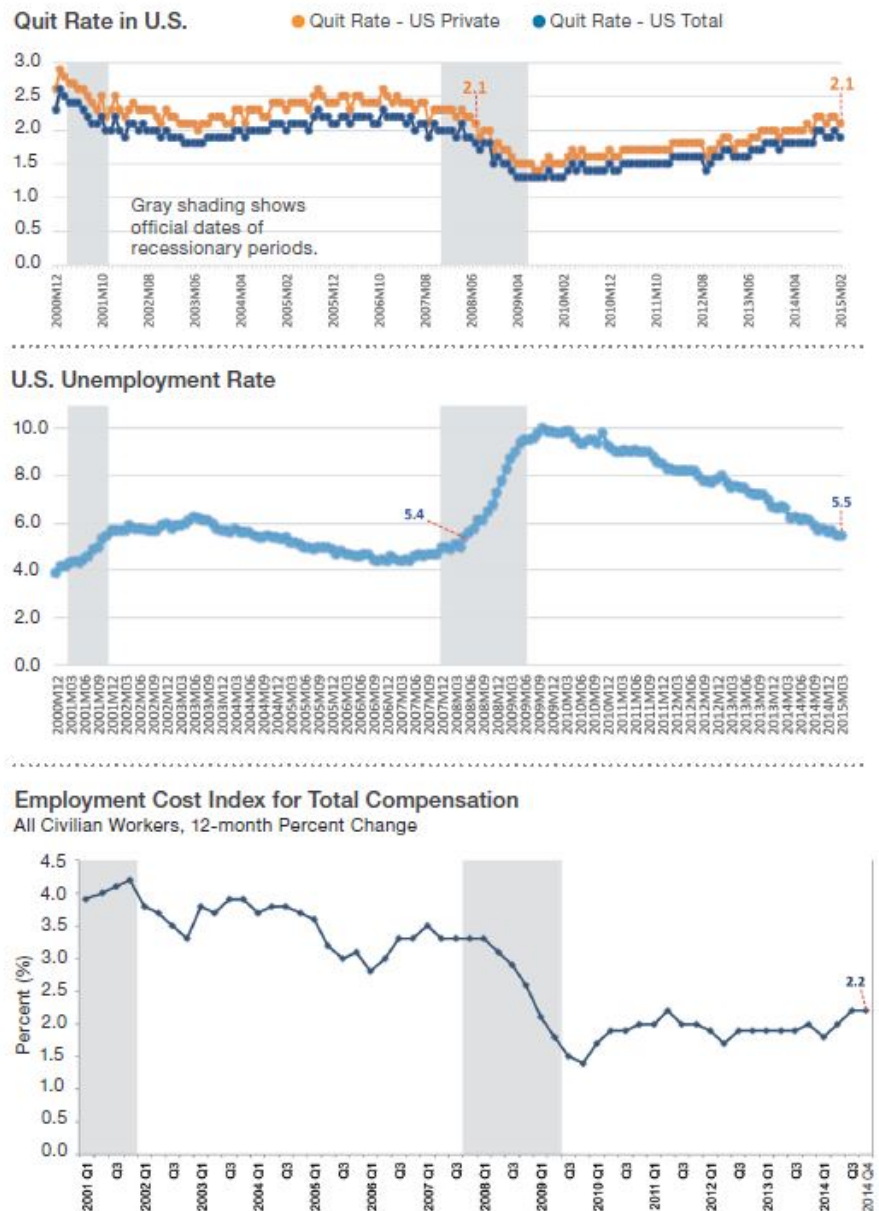
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Promotions are an important way of contributing to an organization's bottom line by putting internal talent to its best use. Promotions also can have positive impacts on engagement and retention ... or not. In *Promotional Guidelines*, 62 percent of respondents say they believe employees in their organizations would say promotions have a positive effect on engagement. But a full one-third indicates a neutral or no effect, and 5 percent say a negative or extremely negative effect. While the survey didn't ask about retention effects, it's hard to imagine getting positive retention outcomes without positively affecting engagement. The survey did indicate significantly worse expectations of engagement (51 percent) among respondents whose companies' practice was to "not share the promotional guidelines or policy with employees." In addition, more than one in five respondents (21 percent) reported this as company practice. The *Promotional Guidelines'* conclusion was that hiding promotion policies, even from those being promoted, was not the most effective practice if engagement is the goal. Interestingly, the strongest expectations of a positive engagement effect from promotional activities (77 percent) was reported by those whose organizations "communicated the guidelines to employees only when they are involved in a promotion."

Surprise! We're Paying You More, and We Want You to Know It

In addition to more promotions, a warming labor market means increased hiring and, when the market heats up sufficiently, upward pressure on starting offers. But what if, instead of raising the starting offer, you (surprise) pay a new hire more after the fact — actually paying a base rate above what the new hire agreed to?

FIGURE 1




U.S. BLS Data Series	Next Release Date
Quit Rate	Data for March 2015 will be released May 12, 2015
Unemployment Rate	Data for April 2015 will be released May 8, 2015
Employment Cost Index	Data for Q1 2015 will be released April 30, 2015

Fascinating new research by Duncan S. Gilchrist, Michael Luca and Deepak Malhotra in their November 2014 paper, “When $3+1 > 4$: Gift Structure and Reciprocity in the Field,” from Harvard Business School NOM Unit, tests what productivity gains could be found in paying just-hired employees more than was agreed upon, in other words, a post-hire surprise raise. Gilchrist et al. conduct a field experiment using an online platform for hiring freelancers to complete computer-based tasks. They contract 266 freelancers to complete a task at a rate of either \$3 or \$4 an hour. Those contracted at \$4 are all paid \$4. But, those contracted at \$3 are split into two groups. One group is paid \$3 as contracted; the other is paid \$4 — the contracted rate of \$3 plus a (surprise) \$1 addition to the hourly base. They find that freelancers paid the (surprise) addition to the contracted base are more productive: “More specifically, paying \$3 + \$1 yields a 20 percent increase in productivity compared to paying \$4 (as contracted), with no extra cost.”

Undoubtedly, there are many features of this experiment that may limit how broadly its findings can be generalized. But as the labor market warms and retention, recruitment and upward pressure on wages garner more attention, it’s worth reflecting on two of the authors’ conclusions: (1) how and when, not just how much more, you pay can matter; and (2) “firms that are looking to be more generous to employees might benefit from labeling the high wages and other gifts that they give to employees, rather than simply assuming that employees are correctly inferring the intention,” as indicated by the authors.

Promotion Granted, and Here’s Why

Gilchrist et al.’s suggestion that organizations can benefit from making sure employees understand the intention behind (unexpectedly) increasing a component of employees’ total rewards may also support the Promotional Guidelines’ conclusions regarding communicating about promotions. If a promotion has some surprise aspect to it (which I would suggest many do), explaining the organization’s intention as captured in its promotional guidelines or policy may be what drives a greater engagement effect indicated in the survey. With promotions on the rise, it would be valuable if organizations passionate about evidence-based decision-making could shed further light on this communication-engagement connection with experimentation of their own. **WS**



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