

REWARD

Crack the Code to Competitive Compensation and Rewards

Blend market data and employee feedback to recruit and retain talent.

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INTRODUCTION

While many economists say the labor market will “return to normal” in 2023, the new shape of normal has yet to emerge. Despite stubborn inflation rates and fears of a recession, unemployment rates remain historically low, and organizations struggle to attract and retain key talent.

Recently, Gallagher asked employers globally to weigh in on workforce trends shaping 2023. Compensation and total rewards topped the list, a strategic component to increase satisfaction and drive retention.¹ Too often, however, total rewards packages rely solely on industry compensation benchmarks or survey data, yielding an incomplete picture of what will motivate **your** employees.

Blending information from three basic components is key to crack the code. By leveraging quantitative and qualitative information analysis from the following sources, HR teams can produce the specific actionable recommendations senior leaders seek to attract and retain talent.



- 1 Gallagher’s total rewards benchmarking databases
- 2 Organization-specific total reward satisfaction survey results
- 3 Insights derived from focus group feedback around total rewards

These components, interpreted through independent analysis, will help organization leaders understand the what and why of employee needs. Building on supporting recommendations, the HR team can strengthen the organization’s total rewards offering, and enhance the employee value proposition to attract and retain top talent. This paper examines these three components and offers guidance on a process to drive employee attraction, satisfaction and retention.

¹2023 *Global Trends*. Gallagher, Jan. 2023 (2023 Global Trends, Gallagher USA, <https://www.ajg.com/us/2023-global-trends/>)

THE RIGHT DATA CAN HELP HR TEAMS CRAFT A STRATEGIC RESPONSE TO THE LABOR SHORTAGE

Nearly half of US employers experienced turnover of 15% or more in 2021, according to a Gallagher survey. Results also showed that retaining talent was the top organizational **and** HR priority.² Recent shifts in the labor market mean HR is more likely to enjoy a seat at the C-suite table, as CEOs increasingly look to the chief HR officer for strategic solutions to the labor shortage.

In Gallagher's *2022 People and Organizational Wellbeing Strategy Report*, the majority of employers (49%) view total rewards as tools to attract and retain talent.³ However, at a time when HR teams increasingly face understaffing and greater workloads, HR staff spend most days managing the problem *du jour*, leaving little time to focus on strategy.

In such an environment, a total rewards package that responds to employees' needs and wants is critical to long-term organizational success. A winning total rewards approach is critical, especially in healthcare and hospitality sectors facing exceptionally high demand for workers. Crafting a strategic offering requires knowing what your employees value. Many HR professionals push back on spending precious resources confirming what they think they already know. Others are afraid to invite employee feedback—especially if the department lacks senior leader support to make changes. Such HR teams may default to a scattershot approach, hoping something will stick. This approach, as well as making choices based on unconfirmed assumptions, can waste time and money.

In a tight labor market, employers recognize the value of clear insight into employees' wants and needs. Not coincidentally, employees increasingly feel emboldened to voice what they want, whether it's flexibility, wellbeing-focused benefits or higher pay. Based on our experience, low unemployment means a more challenging labor pool that will keep employees in the driver's seat.

A multifaceted approach that blends quantitative and qualitative analysis with sector-specific data is essential to developing a realistic and effective total rewards strategy. These tools can help employers close gaps between current offerings and what employees want.

Why earlier total reward strategies no longer work

Many employers are frustrated because their tried-and-true approaches to employee benefits no longer work. Generational differences, among other factors, render previously successful strategies no longer reliable. Younger generations face distinctly different challenges than the baby boomer generation that once dominated the workforce.⁴ Employers have been slow to respond to different wants and needs, likely because baby boomers still largely make the decisions.

Post-baby boomer generations are comfortable asking for what they want. And because they more readily share information—supported by new pay transparency laws—employees easily can compare their compensation packages to those of others in similar positions. Factor in the breakdown of employer-employee loyalty over the past 30 years, and today's young generations will change jobs readily to get what they want.⁵

²People & Organizational Wellbeing Strategy. Gallagher, 2022, <https://www.ajg.com/us/workforce-trends-organizational-wellbeing-strategy-2022/>

³Ibid.

⁴Fry, Richard. "Millennials Are the Largest Generation in the U.S. Labor Force." Pew Research Center, April 11, 2018, [pewresearch.org/fact-tank/2018/04/11/millennials-largest-generation-us-labor-force/](https://www.pewresearch.org/fact-tank/2018/04/11/millennials-largest-generation-us-labor-force/)

⁵Wartzman, Rick. "The End of Loyalty, the Rise and Fall of Good Jobs in America." Wharton School of the University of Pennsylvania, June 12, 2017. "The End of Loyalty: Shock and Awe for Many American Workers—Knowledge at Wharton (upenn.edu)

BLENDING A QUALITATIVE AND QUANTITATIVE APPROACH TO RESEARCH CREATES A MORE COMPLETE PICTURE

Bringing together quantitative and qualitative data for a blended analysis of a total rewards strategy provides employers with the information necessary to understand their current situations. While helpful separately, the real value comes from weaving the insights together to inform decision-making.

Quantitative data: Workforce statistics

Organizations use two types of quantitative data to assess and guide their total rewards strategies. The first type involves external and internal workforce statistics.

External workforce data

External benchmarking of compensation and benefits enables employers to evaluate their total rewards offering for fairness, equity and competitiveness, compared to the larger marketplace. One resource—publicly available data—typically reflects national or regional sources without industry-specific details. Conversely, Gallagher generates and purchases extensive quantities of survey data—much of it addressing compensation. Further, Gallagher has developed one of the country's largest annual benefit surveys, data from which we leverage on behalf our clients. This rich repository provides comparable market data for all key plan design features. Further, the Gallagher team filters by sector, location, organization size and other variables to most closely mirror an organization's profile.

Internal workforce data

To fully leverage external market data for an apples-to-apples comparison with competitors, organizations need a robust understanding of the statistical profile of their employees. This data examines compensation and the ways employees use their retirement, PTO, medical and other benefits. Because this information can be siloed throughout the organization, the HR team may lack the resources to identify and thoroughly analyze the data.

Quantitative research: Collecting and analyzing **numerical data** to generalize results to a wider population, often through surveys or large samples of market data

Qualitative research: Collecting and analyzing **nonnumerical data** such as text, video or audio, typically from focus groups, to gain in-depth insights into employee opinions and experiences



Regardless of the type and source of market data, when HR teams rely solely on workforce statistics, they risk making expensive, uninformed and hard-to reverse decisions. See Case No. 1.

Case No. 1: Balancing employees' long-term financial security against current income

Gallagher's analysis of a private pharmaceutical college's total rewards offering uncovered information that led to a decision reversal credited with retaining long-term faculty and staff. While the college's average salaries were 5% below market rates, their total rewards package featured an above-market **nonelective** contribution of 11% toward employee retirement funds. The institution dropped the nonelective contribution to 5% as a cost-cutting measure. Employee criticism caused leaders to reverse their decision, but adjust the offering to include a 5% **nonelective** contribution and a 5% **elective** contribution. Leaders perceived the change as a minimal 1% reduction from the original 11% contribution.

Employees took a different view. Through Gallagher-facilitated focus groups, leaders learned that employees placed a high value on retirement security. Below-market salaries meant many employees could not contribute to their retirement fund. However, employees were willing to accept a slightly below-market base pay paired with a high nonelective retirement match. This information caused college leaders to rethink their strategy and offer a total rewards package that reflected what employees valued most—long-term security. The high nonelective retirement contribution underpinned the college's retention strategy.

This employer was poised to make a costly decision based on external macro market data. That their employees valued retirement security over current income revealed a micro issue. Absent the focus groups, leaders would not have realized this insight. A 5% reduction in the nonelective contribution coupled with the below-market salaries likely would have motivated some employees to seek employment elsewhere. Market data is a valuable component—but it is only one part of a multifaceted approach to total rewards analysis.



Employee surveys: An important but incomplete view

Employee satisfaction surveys represent the second type of quantitative total rewards research. Like market data, employee surveys are vital to total rewards analysis because they provide quantitative data **specific to your organization**. Employee satisfaction surveys can identify the benefits most important to your employees and where you may be missing opportunities to meet their needs.

Most survey results show only partially how employees feel about their total rewards package. Such surveys fail to reveal critical information to inform a rewards strategy, such as what motivates workers to stay or leave. Because employers don't know what they don't know, it's easy to make poor decisions based on partial information. See Case No. 2.



Case No. 2: Focus groups reveal that an above-market medical plan is vital to retention

In a cost-cutting move, a large metro hospital planned to introduce a high-deductible health plan (HDHP) offering significantly lower premiums in an effort to migrate from a costly medical plan. Gallagher conducted an employee survey and follow-up focus groups as part of a total rewards review. Survey results showed that the mostly mature hospital employees—high medical benefits users—ranked medical insurance as the third-most important benefit. Scores demonstrated high satisfaction for the tier 1 medical benefits and specialty care delivered at their hospital.

However, follow-up focus groups found employees would likely leave in response to significant changes in medical benefits. While employees valued their medical plan's **quality and affordability**, many could not take advantage of tier 1 on-site services. Due to high housing costs near the hospital, most employees lived some distance away and found it difficult to access care after hours or on weekends. They also reported long wait times for an initial visit.

Although the client engaged Gallagher to advise on a medical cost-reducing strategy, the blended approach to total rewards analysis resulted in the client investing additional funds. The hospital board rejected the HDHP migration plan and embraced its high-end medical plan as a strategy to retain current employees and a market differentiator to attract new employees. In addition, leaders instituted an exception process. This move helped employees take advantage of top-ranked benefits closer to home until the hospital could expand its services away from the main campus.

In this situation, quantitative data proved accurate but incomplete. The survey provided only a partial picture of employees' perceptions of the medical plan. Not only does survey data offer incomplete information, but workers harbor limited tolerance for long or frequent surveys. Leaders needed follow-up research to uncover the micro-level insight that enabled them to make decisions that helped retain workers.

When people distrust the process or data

Comparative market data and employee surveys offer a blended approach to total rewards analysis. Yet both data sources suffer limitations beyond the absence of micro insights. Some organizational leaders distrust the data—especially if it goes against their gut instincts. Data is imperfect and human error comes into play. With employee surveys, respondents may not trust the anonymity or worry about how the employer plans to use the information. In these cases, employees may not provide truthful responses.

Even given high trust in the information, employers should never rely solely on quantitative market data when developing a total rewards strategy. At Gallagher, we use market data to help understand the issue, focus custom research and drive the conversation. We recommend adding qualitative insights to the mix—to learn how employees value and use their benefits to support attraction and retention. For this micro level of understanding, leaders must talk to employees. The conversation must focus on basics—what employees like and dislike, and why.

Qualitative data: Focus groups connect the dots

Qualitative research associated with total rewards helps organizations understand what employees value. Such discussions provide micro-level insight into employee experiences and perceptions about those experiences. Importantly, structured conversations can reveal what motivates employees to stay or leave.

Focus groups—interviews with the target audience—are the most common type of qualitative research. Such conversations perform best as follow-up to quantitative research, such as an employee survey. Focus groups allow employers to hear the stories behind the quantitative data, grasp the nuances and connect the dots. The findings give employers a leg up to develop a practical total rewards strategy that will help drive attraction and retention.

We've shared two cases demonstrating the risk of relying solely on quantitative data and the value of focus groups to uncover decision-changing insights. There are also risks to using only qualitative research and analysis. See Case No. 3.

Case No. 3: Market data averted a costly error of assuming and fixing the wrong problem

A large medical facility experiencing financial challenges gained the support of employees to cut two days of PTO to help “save the hospital.” Fast-forward 10 years and the facility is in a healthy expansion mode. In focus groups, employees voiced their desire to regain the two forfeited PTO days.

Leaders could easily have reinstated this benefit; however, after the Gallagher team completed a PTO market study, leaders realized that their organization stood five PTO days below market. The employee satisfaction of regaining two days would have been short-lived—especially in the healthcare sector where staffing shortages fuel a highly competitive labor market. Leaders adhered to the blended approach, considering sector market data with the focus group feedback. As a result, the organization aligned itself with the market and increased PTO by a week, helping to attract and retain talent.



Using only qualitative employee feedback in this situation, the employer would have undershot what they needed to retain talent. Conversely, we know of instances where employers overshot their response to unsustainable employee benefit demands. Walking back a benefit creates more employee dissatisfaction than taking no action. At Gallagher, we advise clients to thank employees for their input, let them know you heard them, and then make a sound business decision based on a holistic assessment of the situation.

Why an independent source can make sense for qualitative research

We have observed that many HR teams lack the time and expertise to take on the added work of qualitative research. Further, internal HR teams may not be well suited to implement the follow-up qualitative research. In our consulting experience, HR teams can bring an innate bias to the task. Based on interactions with employees, HR staff may believe they already understand how employees feel. However, HR staff often hear only from a fraction of the workforce—those vocal employees who do not represent the larger population.

Focus groups depend on a high level of trust and the perception of a safe environment for sharing. HR-facilitated focus groups offer little anonymity. Employees accurately view HR staff as representatives of the organization who are not necessarily in a position to act in their best interests. Employees may be hesitant to share—or share honestly—about their feelings.



Focus groups depend on a high level of trust and the perception of a safe environment for sharing.

CREATE A BLENDED TOTAL REWARDS ANALYSIS

The prior case examples demonstrate the importance of combining market and organization-specific workforce data with focus group-derived insights. Together, the information supports a comprehensive analysis of the organization's total rewards package, and its impact on attraction and retention. Gallagher teams use the following process to weave disparate information together to guide recommendations for change.

Start with quantitative data

At Gallagher, we first recommend analyzing quantitative market data to understand how the current total rewards offering compares with those available in the local or regional market. The process includes incorporating available internal workforce data. Employee surveys further inform this analysis with organization-specific data on employees' perceptions of their benefits. A survey design expert can structure the survey to ensure that the findings confirm or correct leader assumptions, while revealing valuable additional information.

Add in qualitative insights

Once the team has gathered and assessed relevant quantitative data, follow-up focus groups can deliver micro-level clarity into how employees feel about their total rewards package. Specifically, such discussions can examine to what degree the offerings influence employee decisions to stay with the organization or look elsewhere.

Like surveys, effective focus group design and facilitation require a science-based method. Use a trained outside facilitator with no investment in the outcome. Besides facilitation expertise, Gallagher consultants also bring human resources experience within the organization's sector. The most valuable focus group insights surface in response to informed questions, follow-up discussion and analysis—not just reported responses to standard inquiries.



Consider the organization's unique characteristics

Before making recommendations, the Gallagher team assesses all data in the unique context of the organization, such as industry, employee profile and current total rewards offerings. While these considerations are informative, research shows employees most value benefits associated with **medical, retirement and time off**, regardless of location, career stage or industry⁶. Employees often form nuanced preferences based on these factors at the micro level, offering savvy organizations the opportunity to create market differentiators.

A total rewards package is not the only factor impacting attraction and retention. Employers like to point to compensation, including benefits, as the reason for turnover. Although below-market pay affects retention rates, other factors can contribute to an employee's decision to leave. Substandard culture, lack of professional development opportunities, feeling undervalued and staffing issues are just a few examples. Issues unrelated to total rewards sometimes surface in a blended total rewards analysis. See Case No. 4.

Case No. 4: Cracking the total rewards code to healthcare employee retention

A multistate healthcare system struggled with turnover, especially among registered nurses. Leaders used Gallagher-facilitated focus groups to understand the key drivers of retention. Simultaneously, the organization performed a market assessment of their total rewards offering—compensation, benefits, retirement and PTO. Gallagher's analysis revealed that the employer fell behind the market significantly in pay, benefits and retirement match. Focus group feedback confirmed that each factor contributed to turnover. The Gallagher team provided total reward change recommendations for each offering, including implementation steps and detailed costs.

Focus groups further revealed workforce concerns associated with staffing, equipment and facility conditions, HR processes, and perceived respect. Although these areas fall outside the scope of total rewards, the Gallagher team presented the findings to leaders. After operations personnel validated the findings, leaders began actively making changes based on the information, particularly by addressing staffing issues.



This situation reinforces the value of qualitative research to support gathering of all relevant insights—even those outside the focus of the study. When employers lack the internal expertise to respond to uncovered broader issues, a range of teams within Gallagher can offer targeted expertise and assistance.

⁶Society for Human Resource Management. 2022 Employee Benefits Survey, shrm.org/hr-today/trends-and-forecasting/research-and-surveys/Pages/2022-Employee-Benefits-Survey.aspx

LEVERAGE AN UNBIASED APPROACH TO PRESENTING RECOMMENDATIONS FOR CHANGE

A well-structured research process and blended analysis provide a solid foundation for change recommendations. Organizations seldom suffer from one reason for high turnover. Senior leaders expect more than a compensation study to support taking action. Using a blended process ensures that the HR team has examined the total rewards strategy from multiple perspectives and gathered sufficient information to make well-informed decisions.

An independent third party can present honest and unbiased results by eliminating emotions, finger-pointing or the tendency to look backward to identify causes. A forward-looking approach can offer recommendations that advance attraction and retention through a total rewards strategy.

Implementation considerations

With C-suite support for implementing the recommendations, the HR team may want to move quickly on all action items. However, unless the approved recommendations included expanding the HR staff, the team is likely limited by time and resources. You will need to prioritize what to implement and when.

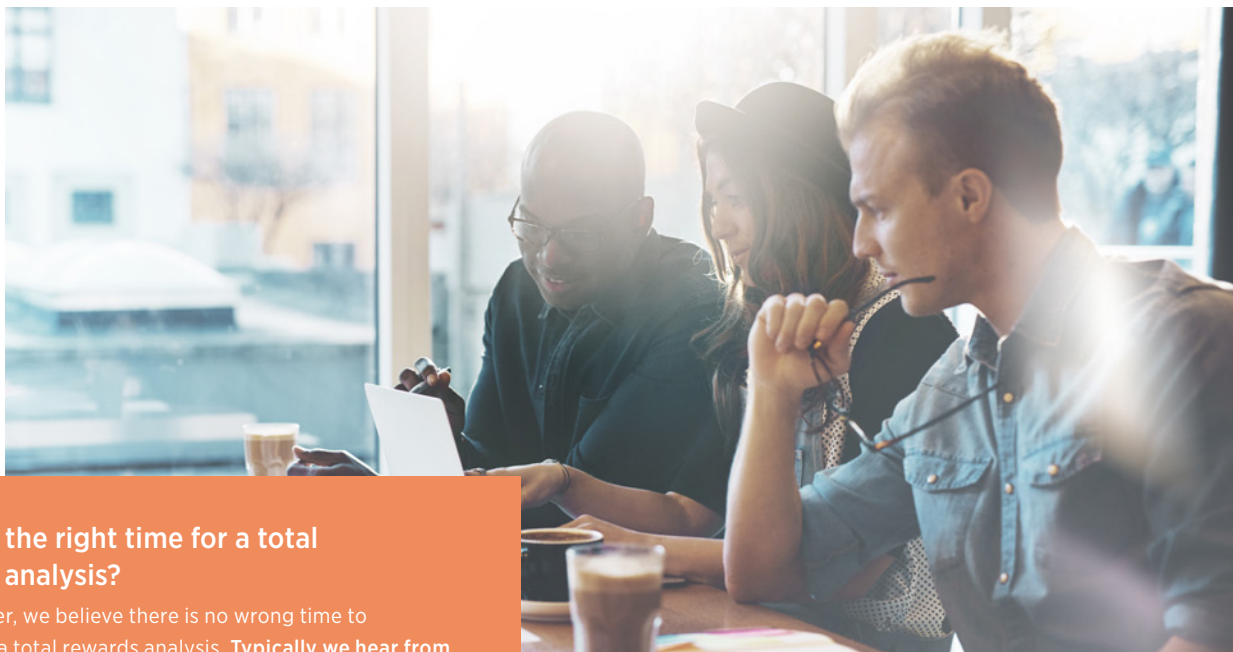
To inform these conversations, Gallagher advisers tend to limit recommendations to five. We prioritize the top two or three based on largest potential impact. Further, we identify the cost and suggested timing for each recommendation. Some recommendations call for immediate action, while others can wait. After completing the prioritized items, your HR team can return to the list and pursue the next recommendation.

Communicate findings and response plans to build employee trust

Employees serve as critical stakeholders in a total rewards strategy. Share the goals and findings—especially related to employee surveys and focus groups. Be transparent about outcomes at a macro level. Lack of transparency breeds mistrust and can undermine goals. It's unlikely you'll learn anything that employees don't already know.

Asking for employee input does not mean agreeing to every request. Be honest about what the organization can and will do—short and long term. Provide updates as appropriate. Asking for employee input and then doing nothing is worse than never asking for their opinions. Demonstrate that the organization values their input and is committed to pursuing changes supported by sound business analysis.

Revisit your strategy and action plan every three to five years. Consider what has changed in the marketplace or within the organization. A complete total rewards analysis may be unnecessary, but you may identify an area to revisit, especially if the action plan did not meet expectations. Significant shifts in the labor market may warrant a comprehensive new assessment.



When is the right time for a total rewards analysis?

At Gallagher, we believe there is no wrong time to undertake a total rewards analysis. Typically we hear from organizations that either recognize the importance of total rewards as part of a retention strategy and want to get ahead of the curve, or are experiencing high turnover and need help.

Gallagher advises employers to plan and act proactively before a problem arises. Change won't happen overnight. Often organizations want to schedule their total rewards reviews to provide sufficient lead time to make changes before the next open enrollment. However, not all benefits need to align with annual enrollment. For example, employers can make salary or PTO changes at any time as long as leaders apply the change consistently.

Implementation can span multiple years. Employers therefore should decide how to invest in the effort and how fast the organization can act on internal survey data and focus group findings, recommendation approvals, and implementation. Gallagher clients enjoy immediate access to current market data and a deep pool of tenured HR consultants in various industries. The Gallagher team typically requires fewer than three months to analyze all available quantitative and qualitative data before developing recommendations.

Leader responsiveness to the diverse benefit interests of the workforce is key to attract and retain talent. Employees drive the wellbeing discussion, and employers look for innovative ways to connect them to the organization. Successful attraction and retention efforts require leaders to understand their employees' total rewards preferences and incorporate those insights into strategies that strengthen the employer brand.

The Gallagher team brings broad expertise in compensation and total rewards, health and welfare, communications, executive search, market data analysis, employee surveys, and focus group facilitation. Drawing upon these resources enables Gallagher advisors to help employers leverage a blend of quantitative and qualitative information. Organizations benefit from actionable recommendations aligned with business goals and resources.

Working collaboratively with HR leaders, the Gallagher team can package and present analysis and recommendations, and outline projected timing and financial and employee considerations. This broad support positions the HR team as the strategic leaders the CEO expects.

Contact Gallagher to learn more about how we can help your organization leverage data to drive better decisions and face the future with confidence: [AJG.com/total-rewards](https://www.ajg.com/total-rewards)

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