THE QTI GROUP

2020 HR Trends Report:

Your Guide to a Winning HR Strategy

THE *QTI* GROUP

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The State of HR: Constant Change, Increasing Competition

Human Resources professionals know today's market is in a constant state of flux. Unemployment is at record low numbers. Candidates have multiple options to consider and compensation and benefits expectations that exceed program limits. Even current employees see greener grass and may be tempted to leave instead of growing with their current company. Where employers had negotiation power in the past, now the power has shifted to employees and candidates.

So, what's an HR pro to do to strategically combat this onslaught of challenges? This guide will help you gain a solid understanding of the state of the local market and learn how to optimize your HR strategies to succeed in today's environment.

Annually, QTI fields a Human Resources Trends Survey to identify today's top HR challenges and solutions, collecting data on your local talent competitors' attraction and retention strategies, compensation and benefit plans, diversity and inclusion programs, and more.

In past years, employers in the market have been most concerned with attraction strategies that bring talented employees to their teams; while that is still true, this year, it's clear employers are realizing an inward focus on employee engagement can be a worthwhile tactic to enhance external interest. Our study found that the higher their employee engagement, the fewer HR challenges they face. In fact, 83% of high-performing companies find their workforce to be highly engaged. Because of this engagement, they see better company performance, lower voluntary turnover, and lower spend on year-over-year payroll increases, to name a few.
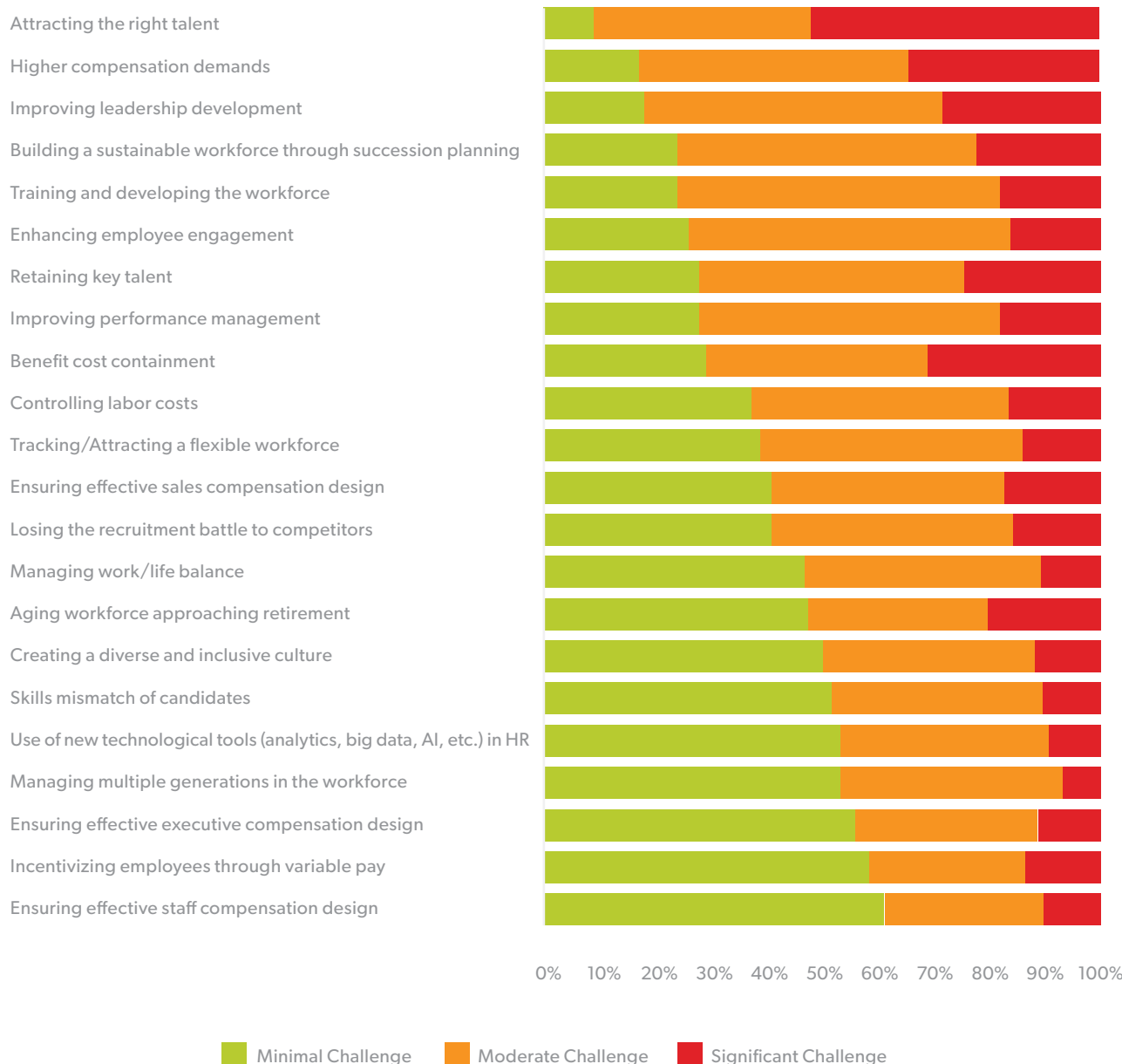
83%
of high performing companies find their workforce to be highly engaged

But there's more to the story, starting with a complex market full of HR challenges.

HR Challenges: Attracting, Compensating and Training Employees Are Top of Mind

In the current state of the market, everything from an aging workforce, to the challenge of finding skilled labor, to a demand to have better work-life balance can impact your HR strategies. This year's survey respondents report there's a range of how these challenges – and more, as detailed in the chart below – are impacting their businesses in 2020.

2020 HR Challenges

Attracting the right talent

Higher compensation demands

Improving leadership development

Building a sustainable workforce through succession planning

Training and developing the workforce

Enhancing employee engagement

Retaining key talent

Improving performance management

Benefit cost containment

Controlling labor costs

Tracking/Attracting a flexible workforce

Ensuring effective sales compensation design

Losing the recruitment battle to competitors

Managing work/life balance

Aging workforce approaching retirement

Creating a diverse and inclusive culture

Skills mismatch of candidates

Use of new technological tools (analytics, big data, AI, etc.) in HR

Managing multiple generations in the workforce

Ensuring effective executive compensation design

Incentivizing employees through variable pay

Ensuring effective staff compensation design

0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100%

■ Minimal Challenge   ■ Moderate Challenge   ■ Significant Challenge

Note: Top challenges in this report refer to those ranked as moderate and significant in this chart.

According to this year's survey respondents, three expected challenges for 2020 rise to the top: attracting the right talent, meeting higher compensation demands, and improving leadership development.

Attracting the Right Talent: With few candidates holding the right skillset and many job options for those candidates to select from, there's no doubt employers are feeling how difficult it is to find and hire the right people. And our survey showed just that. Despite a 1% decrease since last year's survey, this continues to be the number one HR challenge, faced by over 91% of respondents.

Meeting Higher Compensation Demands: The second most significant concern for employers, and cited by 83% of respondents, is the higher compensation demands they're seeing from current and potential employees. This goes hand-in-hand with the top concern, as candidates hold more power to negotiate compensation and employers feel pressure to acquiesce. Interestingly, this concern was only ranked number seven in HR challenges in 2019, showing just how much the hiring environment has evolved in the last year.
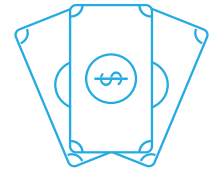
Improving Leadership Development: A recurring theme for the past six years, 82% of respondents cited the need to improve leadership development. Driven in part by boomers retiring and the skills gap widening, the need for leadership development has become even more crucial. It's no surprise, then, that the next two most-cited challenges are building a sustainable workforce through succession planning and training and developing the workforce.

While not a top-tier challenge, respondents also noted that tracking and attracting a flexible workforce will continue to become more difficult – in fact, it had the greatest year-over-year increase, rising by 22%. And it's no surprise; as the labor market shrinks, employers are trying to identify creative ways to leverage talent (e.g., remote work opportunities, gig workers, etc.) to successfully operate in this new environment.

ASK YOURSELF:
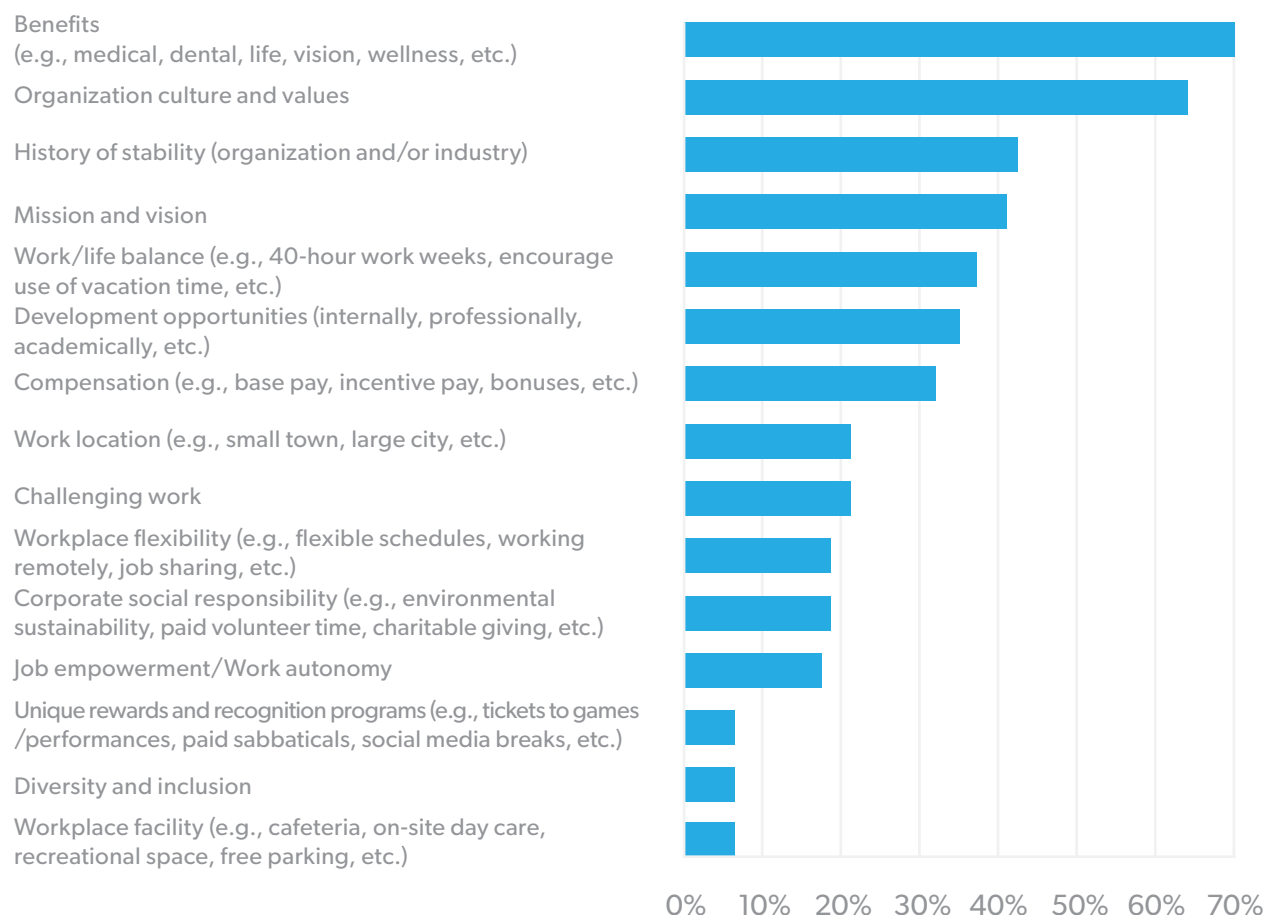## What HR challenges are you facing?

Your Employment Brand: The Key to Attracting and Retaining Top Talent

To attract talent in this tight labor market, one strategy employers use to distinguish themselves is a strong employment brand. Similar to your company's brand, your **employment brand** helps convey what your company stands for and what it's like to be part of your workforce. Often, employers focus on what they perceive their employment brand to be, but what matters most about your employment brand is not what **you** think, it's what **others** think.

For the past five years, respondents have reported that benefits, company culture and values are the most highlighted elements of their employment brands. But are these elements truly a differentiator? Aren't competitive benefits, a positive culture and clear values table stakes in today's environment?"

> An **employment brand** is the market perception of what it's like to work for an organization. In other words, it's the image that your prospective, current and past employees have in their minds about the employment experience at your company.

Highlighted Elements of Employment Brand

Benefits (e.g., medical, dental, life, vision, wellness, etc.)

Organization culture and values

History of stability (organization and/or industry)

Mission and vision

Work/life balance (e.g., 40-hour work weeks, encourage use of vacation time, etc.)

Development opportunities (internally, professionally, academically, etc.)

Compensation (e.g., base pay, incentive pay, bonuses, etc.)

Work location (e.g., small town, large city, etc.)

Challenging work

Workplace flexibility (e.g., flexible schedules, working remotely, job sharing, etc.)

Corporate social responsibility (e.g., environmental sustainability, paid volunteer time, charitable giving, etc.)

Job empowerment/Work autonomy

Unique rewards and recognition programs (e.g., tickets to games /performances, paid sabbaticals, social media breaks, etc.)

Diversity and inclusion

Workplace facility (e.g., cafeteria, on-site day care, recreational space, free parking, etc.)

0% 10% 20% 30% 40% 50% 60% 70%

If you want to stand out to prospective employees, you need to identify what really sets you apart and is of interest to candidates. One way to approach this is to look at what employers **aren't** talking about.

For the past three years, the least highlighted elements of employment brand include:
- Unique rewards and recognition programs
- Diversity and inclusion
- Workplace environment

While these categories have not historically been highlighted, they should be given greater consideration as workforce demographics shift and employees demand more meaning from the brands they associate with.

Additionally, these facets are the proof points of your company's culture, and you need to be able to back up your claims. For example, if an employer boasts a collaborative culture, they could highlight their recognition program that rewards teamwork, their inclusion initiatives to foster better team dynamics, and an open office environment to support great co-working space.

When you think about your employment brand, think about not only what you **are** but also what you **aren't**. A clearly defined employment brand is going to better distinguish you from the competition and might just be the edge you need to bring talent through your doors first.

> **It's important to not overlook the power of your people, either. To find more candidates, 47% of respondents are also providing referral bonuses to those who refer a candidate who is hired.**

Yet all these strategies are pointless if an employer can't sprint in this 100-meter race. To accelerate the hiring process, respondents are most commonly taking the following approaches to gain an edge:
- Shortening the interview steps (52%)
- Utilizing a standardized recruitment process (49%)
- Making their best offers to candidates out of the gate (46%)

Despite the pressure to move quickly, few respondents are reducing or relaxing their assessment testing, drug testing, and background check requirements, and only 3% are using AI in the recruiting and hiring process.

ASK YOURSELF:
When was the last time you evaluated your employment brand?

A Strong Retention Strategy Foundation: Start with the Why

While attracting top talent is once again a top concern for employers this year, so is retaining the people they have. While this takes some of the strain off having to hire, it is a critical component of your HR strategy that deserves ongoing attention.

In this year's survey, 72% of respondents identified that retaining key talent is a moderate to significant HR challenge (ranked seventh overall), yet only 24% of respondents are regularly performing **stay interviews** with employees.

A **stay interview** is a structured discussion a leader proactively conducts with an employee to learn how to strengthen that employee's engagement and retention with the company.

Although stay interviews take time, and time is limited, dollars are also limited. And when the cost to recruit and train new talent can be expensive – 33% or more of that position's salary – it is worth the investment of time to proactively reach out to current employees and find ways to keep them around.

A reactive tactic some companies (11% in this year's survey results) use is a retention or stay bonus as a strategy to retain key talent. While this tactic may work for some, research indicates that such programs are ineffective.

This leads to a common question: how do you know if your retention strategies are working? On average, respondents to this year's survey have a 12.1% voluntary turnover rate, which 67% report is similar to last year. This, of course, varies across industries. The top reasons for resignation? Career development (50%), compensation (41%), and retirement (38%). While there's not much that can be done about retirement, career development and compensation are factors your HR strategy can address.

Voluntary Turnover Rate by Industry
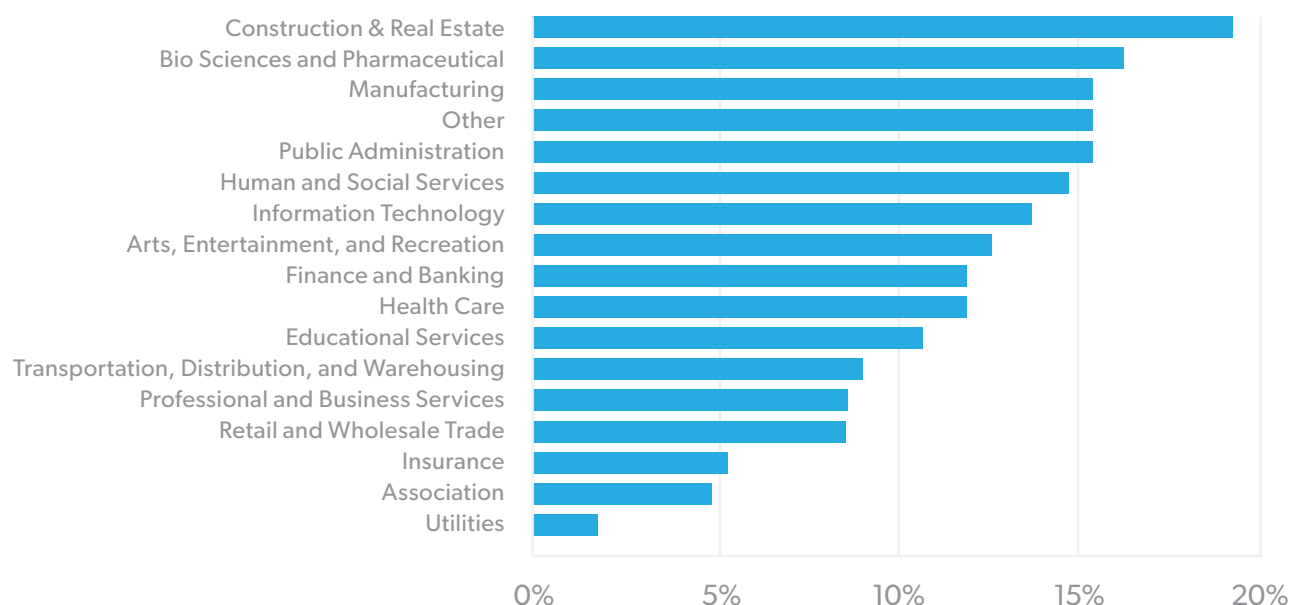
ASK YOURSELF:
How are your strategies impacting retention?

The Dollars Behind HR: It Pays to Retain

Higher compensation demand is the second-ranked expected HR challenge of this year's survey respondents, yet 78% believe that employees are paid fairly. This may in part be because respondents have seen an average payroll spend increase of 7.3% in the last 12 months. This figure may be startling to some, as actual and projected base pay increase budgets are still hovering around 3%.

It may come as no surprise that companies experiencing the biggest year-over-year increases in voluntary turnover are seeing the biggest increases in payroll spend, as they put forth attractive offers to candidates to fill the gaps.

In fact, respondents with a 3%+ increase in voluntary turnover since 2019 have experienced higher changes in payroll spend (10.2%) than those with similar turnover (7.0% payroll change) and those with a 3%+ decrease in turnover (5.7% payroll change).

But turnover is just one factor in payroll spend trends. Companies that reported low employee engagement levels are seeing higher increases in payroll spend compared to those with high employee engagement. As an example, companies that cited low employee engagement have increased their payroll spend more (10.3%) compared with those who have high employee engagement (7.5%).

22%

of employees believe they're paid fairly

*recent PayScale data

Voluntary Turnover is when an employee willingly chooses to leave their position. This can be costly to a company because of the costs to recruit, hire and train a new employee to take their place.

	2019 Actual Base Pay Increase Budget:	2020 Projected Base Pay Increase Budget:
Median	3.0%	3.0%
Average	3.1%	2.9%

The key takeaway here is that companies with low employee engagement and high voluntary turnover are seeing the largest increases in payroll spend. So, putting in the work to not only retain, but engage your employees can pay off – literally and figuratively.

PRO TIP: Consider adopting cross- functional committees to address employee culture initiatives, special projects and more. Running a voluntary and employee-driven committee can drive deeper and more meaningful employee engagement with that committee and beyond.

ASK YOURSELF:
How do you encourage your employees to engage?

Bringing It Full Circle: Adopting a Total Rewards Philosophy

Because compensation is a top HR concern and reason for employee turnover, there's fierce pressure on employers to "keep up with the Joneses." It makes sense that the majority of companies are looking to *meet* the market in base pay, incentives, and benefits and *lead* the market in intangibles such as development opportunities, culture and workplace. However, this year's study found that companies with more competitive philosophies experienced less voluntary turnover and higher employee engagement.

But how do you know if you're being competitive in this market? Most respondents (74%) report they rely on market survey data, and 50.3% have this analysis performed either in-house or by a third party at least once each year.

Since being market competitive is not just important but critical, we need to go beyond these surveys and take the time to look inward at what truly motivates our workforce. By proactively taking time to fact check what is actually motivating to employees and designing pay programs based on that, your rewards programs will be far more impactful, and both current and prospective employees will respond in kind.

Employers who are succeeding in this space are the ones who are measuring outwardly by looking at the marketplace, assessing inwardly by surveying employee motivators, and thinking holistically by building a **total rewards program**.

When thinking holistically, these employers are considering how all tangible and intangible rewards elements fit together to be worth more than the sum of the parts, rather than focusing on each element in isolation.

Yes, it's important to be competitive in cash compensation and benefits, but a holistic total rewards program can generate greater return on what is often an employer's largest financial investment because it will address the full set of motivations of the workforce to more fully engage employees.

> A **total rewards program** includes all the tangible and intangible ways in which an employer rewards employees, including base pay, incentives, benefits, career opportunities, and more.

Intent is nothing without execution, however. Documentation of your company's total rewards philosophy is crucial to bring these elements together with strategic design. Survey respondents seem to recognize this, as 83% have a documented philosophy. However, only 25% formally communicate their total rewards philosophy with employees. Those who do are more likely to agree that their employees are paid fairly, perhaps because this transparency promotes greater accountability.

ASK YOURSELF:
How do you communicate your company's rewards philosophy to employees?

# Increasing Transparency: Communicating About Pay

In the previous section, we saw that of the few companies that proactively and transparently communicate about their rewards programs to employees, most were likely to agree that employees were paid fairly. But only 50% of survey respondents reported that their employees only know what they get paid (and nothing beyond that fact); similarly, only 23% reported employees understand how their pay is determined and only 18% reported their employees know how and why pay decisions are made the way they are. This isn't pay transparency.

Research shows that a fair and transparent pay process actually boosts employee engagement more than providing additional pay. In fact, of the 41% of companies that identified compensation as one of the top reasons for employee resignation, 85% are NOT sharing how and why the company makes pay decisions the way it does. This is a great example of how increased transparency can lead to better understanding and higher retention.

To get the most out of your pay programs, it's crucial to be transparent. Take the analogy of an iceberg; it's easy for an employee to see what they're paid and hear what they're told, but hard for them to understand how and why pay decisions are made the way they are. Educating them on the how and why will complete their understanding, and in turn increase engagement and appreciation of the pay programs.

Transparency Increases Compensation Understanding

- **What I'm paid**
- **What I'm told**

- **How pay decisions are made**
- **Why pay decisions are made the way they are**
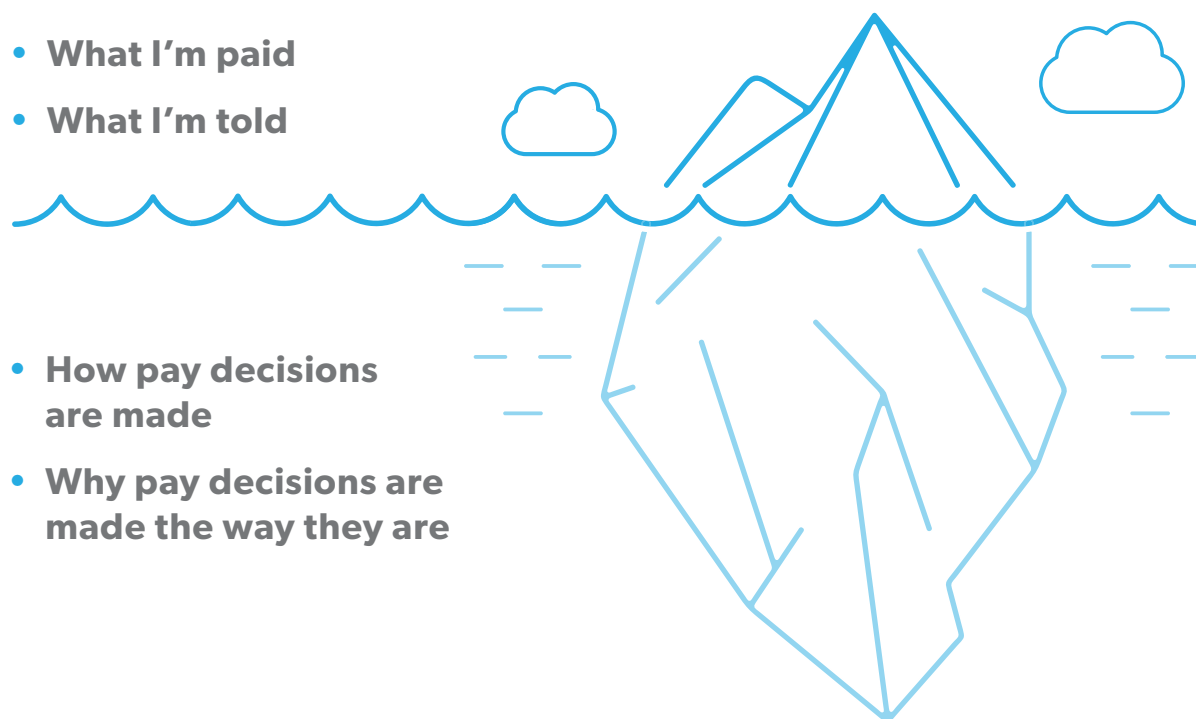
Transparency is a spectrum, though, and most companies don't want to be fully transparent (only 4% want employees to know everyone's pay). But they do want to progress further along the pay transparency spectrum to get the most out of their pay program. One way to think of this evolution is striving for progress, not perfection. For example, think about what even a one percent progression will make, not the full 100%, to make change more realistic.

So how do you make moves on this spectrum? It starts with training employees on your total rewards program, including your philosophy, and sharing personalized total rewards statements; only 48% of respondents provide their employees with individualized total rewards statements at least annually. As employees understand more, you can add even more levels of communication to drive transparency.

Current Versus Desired Levels of Pay Transparency					
	Employees only know what they get paid	Employees know how company uses market data to determine pay	Employees know their pay range and where their pay can go	Employees know how and why company makes pay decisions the way it does	Employees know everyone's pay
Current State	**50%**	28%	32%	18%	3%
Desired State	12%	51%	**63%**	**59%**	4%

ASK YOURSELF:
How transparent do you want to be?

From Table Stakes to Top-Shelf: How Benefits Are Evolving

Benefits have been a significant focus for employers over the past few years, as they look to stand out in such a competitive market. And while a meaningful part of total rewards, benefits are often underappreciated or overlooked by employees, unless they're specifically called out through a total rewards statement.

With the higher focus on benefits, employers started to see cost containment as a concern. While that concern dropped in this year's survey (from second to ninth place), benefit cost containment continues to be a concern for employers.

5%
in 12 months
Average medical/health insurance cost increase for survey respondents
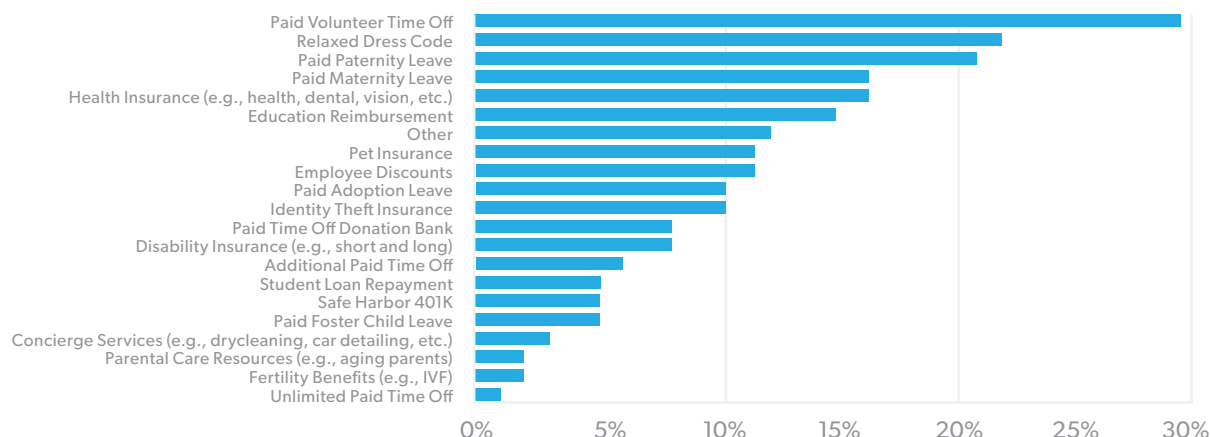
Despite these concerns, the need to be attractive to potential employees and show current employees that they're appreciated remains, and nearly 50% of survey respondents have acted by adding new benefits in 2019, or plan to in 2020. These new benefits are helping employees express themselves, expand and better support their families, and further develop personally.

- **Helping Employees Express Themselves:** The two most prevalent changes companies are making are adding paid volunteer time off (28%) and a relaxed dress code (21%); both of these efforts help an individual's personality shine through and can lead to higher engagement.

- **Helping Employees Expand and Support Family:** As paid parental leave continues to increase in prevalence, companies are adding to their paid leave structure to better support a range of family situations:
  - 20% are adding paid paternity leave
  - 16% are adding paid maternity leave
  - 10% are adding paid adoption leave
  - 5% are adding paid foster child leave
  - 1% are adding caregiver leave (include parents, siblings, etc.).

  In a similar trend, 2% are adding parental care resources and 2% are adding fertility benefits (e.g., IVF).

- **Helping Employees Uniquely Fortify Their Lives.** The current workforce is perhaps as diverse as it has ever been. Those employees are looking to grow in new and unique ways, so benefits considerations have to keep up. Employers are now adding benefits such as education reimbursement (14%), pet insurance (11%), employee discounts (11%), and identity theft protection (10%) as ways to stand out from competitors and support the development and security of their employees.

New Benefits Being Offered

Bar chart showing new benefits being offered (0% to 30%):
- Paid Volunteer Time Off
- Relaxed Dress Code
- Paid Paternity Leave
- Paid Maternity Leave
- Health Insurance (e.g., health, dental, vision, etc.)
- Education Reimbursement
- Other
- Pet Insurance
- Employee Discounts
- Paid Adoption Leave
- Identity Theft Insurance
- Paid Time Off Donation Bank
- Disability Insurance (e.g., short and long)
- Additional Paid Time Off
- Student Loan Repayment
- Safe Harbor 401K
- Paid Foster Child Leave
- Concierge Services (e.g., drycleaning, car detailing, etc.)
- Parental Care Resources (e.g., aging parents)
- Fertility Benefits (e.g., IVF)
- Unlimited Paid Time Off

ASK YOURSELF:
How can you evolve your benefits to match your culture and employee needs?

Advancing Diversity and Inclusion:
Bringing Perspective and Warmth to Your Company

A company culture that stands for something. A rewards program that is based on employee motivations and communicated with transparency. Benefits that support your unique employees. These HR strategies lead to a more engaged employee base and reduced voluntary turnover. Having a diverse and inclusive workplace is no different.

Perhaps one of the more significant trends this year's survey revealed was both the importance and need for improvement of company diversity and inclusion (D&I) programs.

Diversity

Recognizing and respecting the individual differences (visible and invisible) that make each person unique.

Diversity asks:
"Who do we bring into our company?"

Equity

Creating equitable opportunities for all regardless of varying dimensions of diversity.

Equity asks:
"How do we ensure all candidates/employees have equal access to opportunity?"

Inclusion

Building an environment where everyone feels a sense of belonging and value.

Inclusion asks:
"How do we make them feel welcome?"

As research increasingly proves the importance of D&I, employers are giving it greater attention. In fact, 47% of respondents indicated that D&I is a strategic priority for their company in the coming year. Specifically, respondents noted a need for greater and more equitable diversity with both employees and leadership.

- **Employee diversity:**
  - On average, respondents rated their organizations as 4.4 out of 10 in regard to employee diversity (1 = homogeneous; 10 = heterogeneous/highly diverse).
  - The most common response was a rating of 3.
- **Executive diversity:**
  - The average response in regard to executive diversity was 3.5 out of 10.
  - The most common response being a rating of 1.

With only 26% of respondents providing a rating higher than 5 at the employee level, and 15% reporting a rating higher than 5 at the leadership level, it's clear there's room for improvement in this zone – especially among leadership. But to get to the leadership level, successful companies will ensure they have equity at all levels, so anyone has the opportunity to grow into a leadership role. Additionally, while D&I is a strategic priority and need for many, actions to support D&I have room to grow as well:

- **Only 22%** of companies are offering diversity and inclusion training
- **Only 17%** indicated that they require vendors, suppliers, partner organizations, etc., to comply with specified D&I best practices
- **Only 7%** indicated that they have a full-time D&I employee and/or a standing D&I council or taskforce

For those companies who are able to advance on their D&I journey, it seems that they can expect higher employee engagement and lower voluntary turnover levels. Specifically, those who identified D&I as a strategic priority were 2.5 times more likely to respond that they had high employee engagement levels.

ASK YOURSELF:
Are you prioritizing a diversity and inclusion strategy?

Driving Development and Engagement:
Talent Management That Transforms

A widening talent gap, a large segment of the workforce on the edge of retirement, and a need for succession planning are converging to underscore the need to focus on employee development. This has been top-of-mind for survey respondents for the last six years and is in the top three HR challenges they cited this year – for good reason.

There are three facets of talent management that this survey explored: talent development, performance management and people analytics; each have unique trends employers need to consider in order to succeed in this market.

Talent Development

As the skills gap widens, employers continue to invest in talent development. Whether this is through internal training programs (73%), external training programs (64%), mentoring or coaching (56%), or education assistance (53%), employers are striving to offer employees what they need to overcome any possible skills gap.

This also goes for candidates; employers in this market hire great people, then put them through training to get them up to speed with what the position requires.

Development can happen very naturally along the course of employment through skills training (done by 55% of employers), workplace safety (55%), and anti-harassment (54%), but the most common timing is during orientation/onboarding (70%) or for leadership development (65%).

One gap in these numbers is with supervisory or managerial training, which only 41% of respondents said they provide. As supervisors and managers are one of the biggest drivers of employee engagement, additional training in this space can make a big impact.

Performance Management

Nearly all (97%) respondents identified that they have a performance management process. Despite the big push in recent years for real-time feedback models, the majority of organizations (54%) still have a traditional model whereby the supervisor or manager meets with the employee once or twice each year to formally discuss performance.

Other approaches include formal frequent feedback via monthly or quarterly meetings (26%), or informal feedback/on-demand coaching in a real-time feedback approach (14%).

Regardless of approach, performance management is one way supervisors can identify where additional training is needed to help that individual or even a department keep growing and leading.

People Analytics

As the need increases for real-time data to support decision making in regard to talent, 30% of respondents have increased their investment in people analytics technology or resources, including an HR analytics employee, a talent dashboard, or an advanced human resource information system (HRIS) over the past 12 months. This number is expected to continue to climb in the future, as it enables HR pros to spend less time on the everyday minutiae and more time on developing strategic programming.
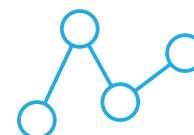
ASK YOURSELF:
Is your talent management helping to transform your employees?

Preparing Your 2020 HR Strategy

Even the savviest HR professionals have a long list of challenges facing them day in and day out. From a competitive hiring landscape that gives candidates several options, to employees looking for where the grass may be greener, to the increasing importance of employee engagement, HR strategies must evolve like never before.

If you can develop a strong employment brand rooted in employee motivators and align your compensation and benefits to that, you'll be building a strong foundation. But build on that foundation with clear communications to employees and candidates, and follow up with necessary training and rewards, and you should expect to see your voluntary turnover decrease, your employee engagement increase, and the company bottom line prosper. It's easier said than done, but results from this survey and others shows that focusing on the full set of these components allows them to feed into one another to create a program that's greater than the sum of its parts.

All of these facets – and more – are key to have in your HR strategy to keep it focused on your people. It's time to make sure you and your strategy are ready for what 2020 will bring.

So, as you're looking to 2020 and planning your HR strategies to reflect your workforce's motivations, your market competitiveness, and key business initiatives, ask yourself:
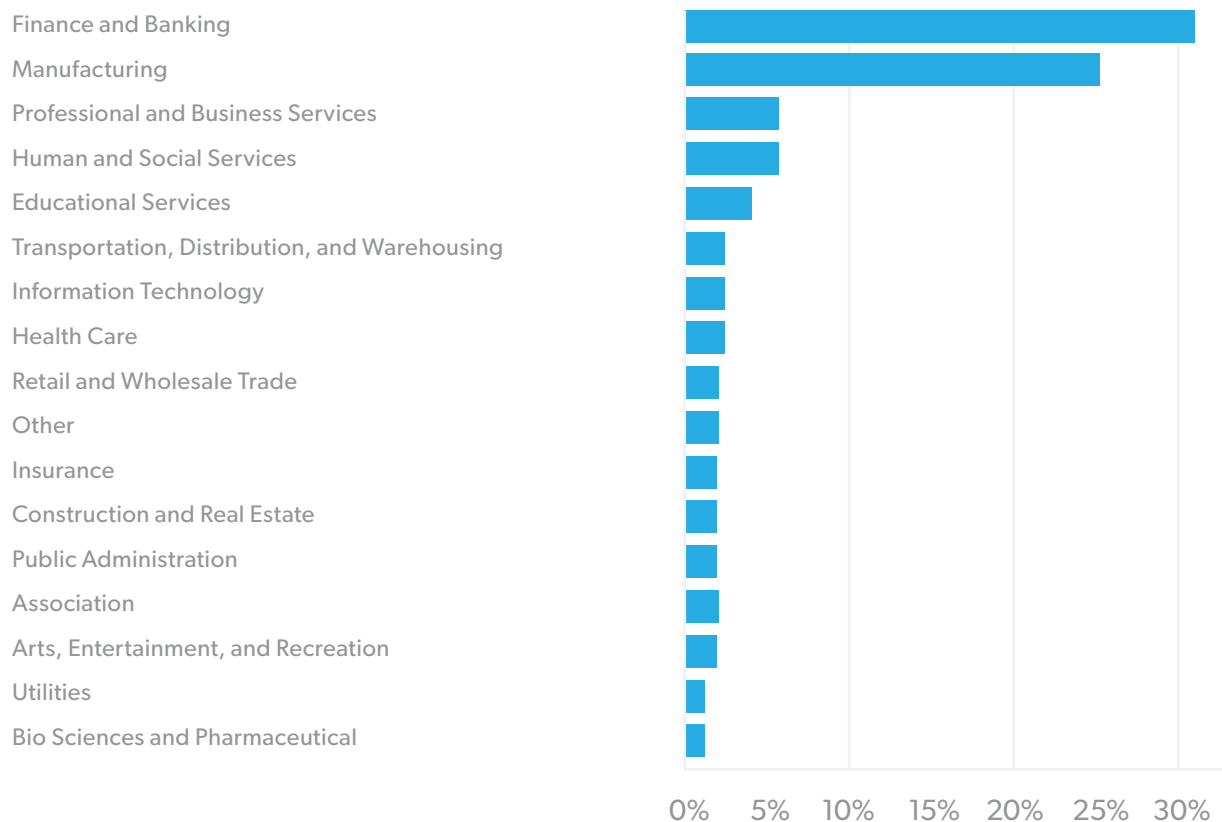
☑ What top HR challenges are you facing this year?

☑ When was the last time you evaluated your employment brand?

☑ Are your strategies effectively addressing your employee retention?

☑ How do you encourage your employees to engage?

☑ How do you communicate your company's total rewards philosophy to employees?

☑ How do you want to progress on the pay transparency spectrum (again, think how and why pay decisions are made)?

☑ How can you evolve your benefits to differentiate your company and align with employee motivators?

☑ Are you prioritizing and taking actions to advance a diversity and inclusion strategy?

☑ Are your talent management programs effectively advancing your employees and your company?

Methodology

QTI's 2020 HR Trends report is based on data submitted by 207 primarily Wisconsin-based employers across a variety of industries. The majority of these employers are privately held and have between 10 and 250 employees. Companies surveyed generally appear to be operating well in that most anticipate achieving at least target level performance for the current fiscal year and most agree to having engaged employees. The survey submission period was August 13-September 5, 2019. If you're interested in receiving the full survey results, QTI welcomes you to participate in next year's survey. Contact us to learn how.

Participation by Industry

Industry	
Finance and Banking	
Manufacturing	
Professional and Business Services	
Human and Social Services	
Educational Services	
Transportation, Distribution, and Warehousing	
Information Technology	
Health Care	
Retail and Wholesale Trade	
Other	
Insurance	
Construction and Real Estate	
Public Administration	
Association	
Arts, Entertainment, and Recreation	
Utilities	
Bio Sciences and Pharmaceutical	

0%   5%   10%   15%   20%   25%   30%

Our work is people.
Because people are the heart of every business.
Are you ready to apply these trends to your 2020 HR strategy?
Contact us to get started.