

the skills
revolution
is now



Insights and benchmarks
to accelerate a skills-based
transformation in your company

Evolving how we use, validate, develop and reward skills is being integrated in business practices. How that looks for your company depends on your strategies.



The 2022 Pay for Skills Survey results are in!

Gain insights to accelerate the skills conversation in your company and benchmark your progress against your peers to get started.

In Mercer's 2022 Pay for Skills Survey, more than 650 organizations from around the world shared their successes and challenges with attracting, retaining, and rewarding the desired skills that advance their business strategies.



Approximately half (47%) of companies report that they are yet to develop an approach to classifying skills at any level of their company, which is a minimal change since 2021.

This key statistic supports Mercer's experience that many companies are still at the very beginning of their skills journey.



What is driving organizations to prioritize skills-based talent strategies?

With more companies prioritizing skills over education (e.g., IBM's well-documented "Skills over Degrees" initiative), more companies need to develop pay for skills capability.

45% of companies report that their need for in-demand skills is higher than for others, making talent search (and retention) even more challenging.

As the need for certain skills takes the forefront in the hiring process — even sometimes ahead of education or experience — skills-based pay practices are often deployed to attract new talent. Even though organizations are assessing skills with a view to achieving that goal, **over 44% of companies report that no formal skills-based rewards** are in place to recognize ongoing skill development.

Of those organizations that do incorporate skills-based pay, **57% indicate that they are not considering implementing** complementary skills-based programs at this time. Are companies over-focusing on skills to hire and under-focusing on building and retaining the skills that will advance their business priorities?

Five key questions being addressed by organizations who are leading the transformation to a skills-focused talent strategy



What skills do we need and how will we incorporate a skills taxonomy into our job architecture?



What skill proficiency level do we expect for each role?



How do we assess the skills that will drive our business forward?



How will we reward for top skills?



How will we operationalize our skills-based strategy?

Is it more common to build a custom skills taxonomy or adopt a taxonomy from a skills-based provider?

Of the 53% who have some form of skills taxonomy, **82% report having an in-house customized skills taxonomy**, with the remaining 18% using either an open source skills framework or one purchased from a third-party provider.

This implies that **44% of all respondents have developed an in-house customized skills taxonomy** to manage at least a portion of their workforce.

Given that incorporating skills into an organization's talent strategy has only risen to prominence in the last few years, the data suggests that a tremendous amount of work has been done in a relatively short time to develop company-relevant skills taxonomies.

Clearly, leading organizations recognize that a foundational infrastructure is the core to the development of effective skills-based hiring, skills-based learning and internal skills development.

Do you wonder if you need to implement a skills-based approach only for certain job families or across the entire organization?

If so, you're not alone, as **55% of the companies that have a skills taxonomy track skills across all employee groups**, while distribution across job families varies in organizations that have a more focused approach.

Notably, there is less interest in tracking skills in Production, Supply Chain and Creative & Design job families. It is likely that tracking human skills in traditional manufacturing and supply chain is becoming less of a priority as automation and robots take over more of the roles in these families, while many of the skills associated with roles that design and manage automation and robots are often listed as "in demand".

While the data shows that only half of responding companies track skills across all employee groups, today's hot skill or hard-to-hire role can quickly evolve and affect varying roles in your organization.

“I am in the market looking for skills, but tracking trends in any formal way is a real challenge.”

Despite indications that half of companies do not have a skills taxonomy in place, a majority of companies (69%) report that they monitor the market demand or availability of skills either informally (60%) or formally (just 8%).

Informal monitoring is by far the dominant market practice, suggesting that many companies are still building their familiarity with the skills-tracking platforms and the related data sets that have emerged and are starting to mature.

This implies that many companies, particularly given the increasing ubiquity of skills taxonomies, **are still struggling to leverage skills taxonomies fully**, especially with respect to more technical data-based applications and external vendor skills data and platforms.



Monitoring skills across all employee groups is a sound, competitive strategy.



The % of companies who report formally monitoring the market demand for skills has remained static over the past 2 years (9% in 2020 vs 8% in 2022)



Proficiency scales and skills assessments remain a main priority and are still highly subjective

“We are in the nascent stage of looking for skills rewards solutions, as we first need to classify and identify skills in terms of proficiency levels to move toward skills rewards solutions that makes sense to us.”

Developing a proficiency scale, defining the expected proficiency of a skill per role, and using an objective process to assess each employee’s skill proficiency relative to the scale enables skills-based pay to be objective and deployed in a fair manner.

The majority of respondents (78%) with a skills taxonomy have a defined proficiency scale. This strongly suggests that the **creation of skills proficiencies definitions is typically either performed as part of the skills taxonomy implementation or the next logical post-implementation step.**



Although proficiency scales are a priority, there is absolutely no consensus in the market on the optimum number of proficiency levels, with a fairly even distribution between companies that report three levels (9%), five levels (7%), four levels (6%) and six or more levels (6%).



Interestingly, a noteworthy (28%) portion of respondents report that the **number of proficiency levels varies either by skill or by job family** — which is equivalent to the total percentage of companies who have a fixed number of levels across the whole population (28%).

Clearly, when it comes to proficiency levels, **companies overwhelmingly opt to design them subjectively**, which may create a barrier to defining proficiency levels based on market benchmarks.

When asked whether companies **assess talent against the relevant skill expectation**, the most common answer was ‘no’ (47%) followed by ‘yes, but only as needed’ (22%). **Among companies that do assess for proficiency**, the most commonplace approach was a combination of ‘employee self-assessment and manager validation’ (62%) followed by ‘manager assessment’ (40%).

Over **one third of companies report the assessment to be part of year-end evaluations or career development**, with only 8% indicating that they assess their employees on a continuous basis. Related to this, only one fifth (21%) of companies report using a formal proficiency assessment tool — a finding almost certainly linked to the fact that such tools are relatively new to the world, potentially challenged by the level of customization seen in the marketplace.

Given that the topic of assessment often enters the skills narrative due to the desire to have a strong, formal method to perform assessments across employee populations, **having an assessment tool that is tied to the proficiency scales is critical** to using proficiency ratings in an objective, quantitative fashion.

This seems particularly pertinent given that over **three quarters of companies (77%) indicate that individual employee ability is the most significant contributing factor to proficiency level.**

However, with 82% of companies building their skills taxonomy as a custom framework, it would seem that assessment tools would also have to be at minimum highly configured or perhaps even custom built.

In lieu of such deep platform flexibility today, **assessment remains a predominantly subjective process** consisting of self-assessment, manager assessment and/or 365-style reviews — and correspondingly is possibly at risk of human errors in judgement and individual subconscious biases that are inherent in such approaches.

Pay for skills is important strategically but difficult to operationalize across the organization

What is driving skills-based rewards in pay?

In a continuation of the trend seen in our 2021 results, almost exactly half of respondents indicated that their leadership views skills-based pay as either important or very important to ensuring optimal compensation plans at companies. This aligns well with the data that confirms over half of the respondents have established an approach to classifying skills.

For the vast majority (80%) of companies, the **main objective when linking rewards to skills is attraction and retention**. Nearly half of companies (46%) do not differentiate rewards for specific skills, versus 40% that differentiate rewards for hard skills, 33% for leadership skills, 24% for soft skills and 24% for qualifications.

It is perhaps unsurprising that the **hard skills are the most common skill type upon which reward differentiation is based** as they are often tied to specific technical jobs or functions and are easier to objectively assess than soft skills. For example, high-demand, high-value software programming languages such as Python and R fall into this skill category.

Strategic purposes for using skills-based pay

Strategic necessity of revamping the organization key technical skill sets

52%

Implicit need linked to strategic goals

42%

Entry in new markets and/or development of new services/products that requires a technical skill set enlargement

30%

Aggressive strategic policy of hiring new high-end professionals (e.g., AI and digital)

29%

Explicit goal present in the strategic plan

27%

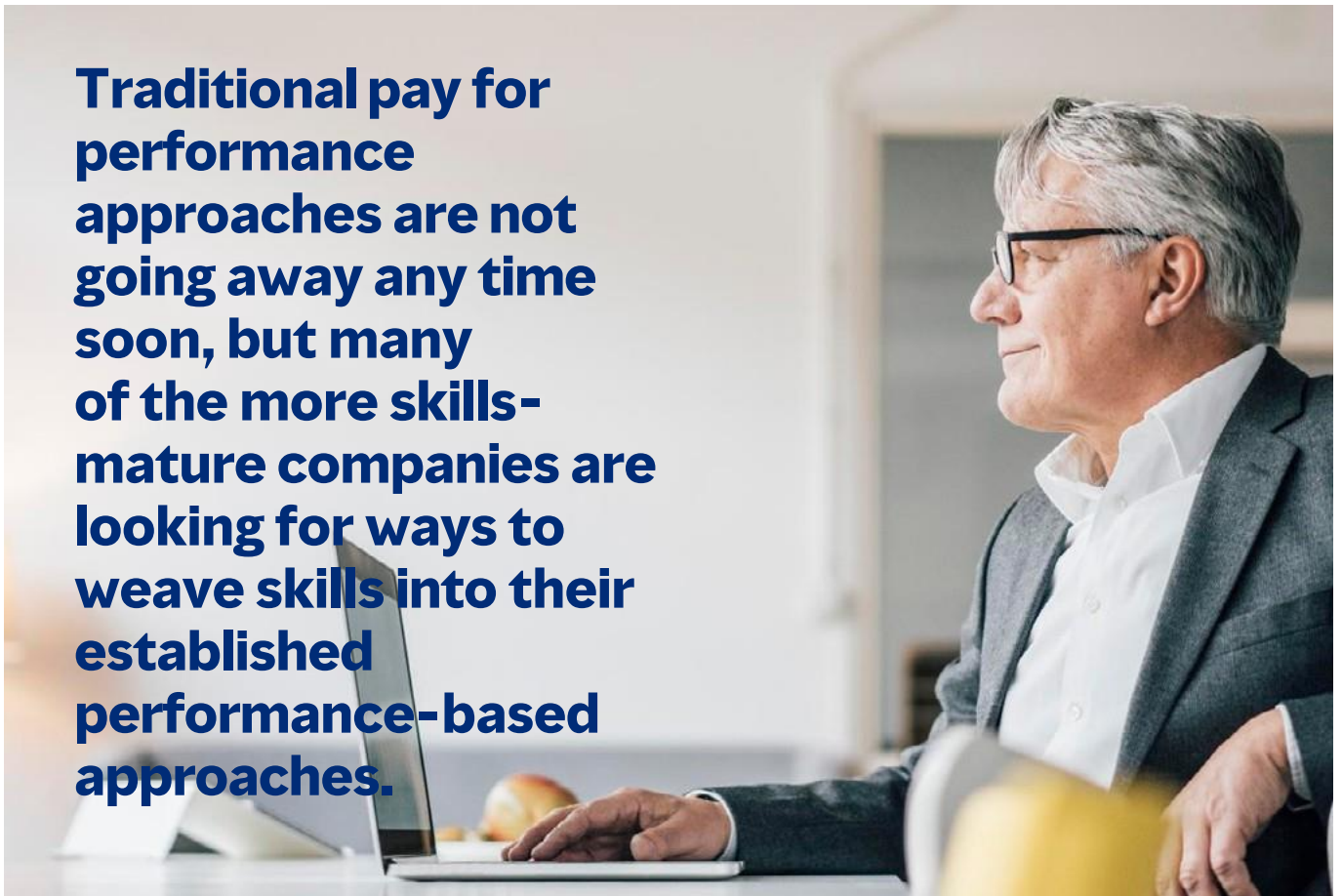
Of the 41% of companies that **link rewards for new joiners to their reported skills**, 89% do so in their starting salary, equating to 36% of total respondents.

For companies that use a pay for performance approach, and with respect to their three-year plan, 37% indicated that **critical skills will give access to higher pay levels but performance will still be the main driver of success**, versus 31% of companies indicating that salary reviews will be driven equally by both factors.

18% of companies indicated that **skills-based pay will be used on only a limited or as-needed basis** during the salary review process, and only 4% of companies expect that skills-based pay will become the prevalent driver for salary reviews, which shows that performance will continue to be a key driver of pay.

Significantly, 44% of companies report that they do not link rewards to the ongoing development of skills which — particularly for those who do factor skills into pay at time of hire — has the potential to create equity gaps in the organization over time.

Traditional pay for performance approaches are not going away any time soon, but many of the more skills-mature companies are looking for ways to weave skills into their established performance-based approaches.



Operationalizing a skills-based approach

“We recognize the need for [a skills-based approach] in the future but it is a long road with a lot of change management to get to the finish line.”

While the majority of companies understand the need to incorporate skills into their strategy to compete for top talent, **operationalizing skills programs presents many barriers to launch** with minimal best practice guidance from peers.

In assessing overall ability to operationalize a skills-based approach, companies feel most confident about their ability to pay for the skills that they need (39% rating themselves as effective or very effective) and their ability to communicate skills expectations with individuals (34% giving themselves the same rating).

On the flip side, companies feel least confident about their ability to track the availability of internal skills (42% rating themselves as not very effective or not effective at all), followed by their ability to track availability of skills in the external market (39%).

Of companies that have a skills taxonomy in place, **less than half (41%) have a (purchased or in-house) technology that enables usage, collaboration and easy updates** — which is nearly identical to our data since 2020. Of the group with in-house technology, 43% use Microsoft Excel or an internally-developed database.

Barriers to skill-based approach to pay

58%

Too complex/too much change management

49%

Requires management development

49%

Difficult to manage



The data confirms that organizations are still assessing the ROI in skills enablement technology investments and that platform vendors are still innovating to find a true product-market fit.



Where does the most up-to-date data about your skills exist, if anywhere?

Only 6% of respondents report utilizing a vendor technology to assess skills. While many hurdles exist for an organization to adopt a skills-based reward strategy, **the traditional job will eventually be replaced with career frameworks designed to optimize the skills an organization needs to achieve its mission.**

And when the task at hand seems overwhelmingly impossible, **completely replacing your existing program is not required.**



The challenge is to enhance your existing program to include pay for skills to strengthen your ability to attract, build and retain critical skills while maintaining a performance-driven culture.



Four key takeaways from the 2022 Pay for Skills Survey



Around half (47%) of companies report that they are **yet to develop an approach** for classifying skills



Among companies who have a full or partial skills taxonomy, there is **no consensus around the optimum number of proficiency levels**; indeed most companies report using different numbers of levels in different functions



Individual skill proficiency assessment currently remains a **predominantly subjective process**, and represents a significant opportunity area



It's not either/or, it's and...**the challenge is to incorporate pay for skill elements into the rewards program** to strengthen the ability to attract, build, and retain critical skills while maintaining a performance driven culture

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