AN HR LEADER'S GUIDE TO SURVIVING WAGE INFLATION

OVERVIEW

Wage inflation continues, even as inflation moderates in other sectors of the U.S. economy. Inflation is the top concern for organizations in 2024, with 74% of HR executives saying inflation is a concern for their organization, according to the *2023-24 SHRM State of the Workplace Report*. The Federal Reserve Bank of Atlanta estimated that people who found new jobs in 2023 landed wage bumps of 6.6%—up from 4% before the pandemic.

SHRM's research found that 78% of organizations expect to pay more for their talent in 2024, with 55% of organizations planning pay increases of between 3.0% and 4.9%.

The causes of wage inflation are complex. Price inflation felt throughout the economy is one contributing factor. Demand for talent is another, as unemployment remains low and employers make higher bids for fewer candidates. Employers will pay an especially high price for candidates with hard-to-find skills.

These factors have worked together to drive compensation upward, said Kristin Thielking, executive vice president, people, at Evolve Vacation Rental.

These increases have likely given relief to workers grappling with higher prices for consumer goods, but they present significant challenges for employers. Wage inflation increases labor costs, makes talent acquisition more expensive, and drives employees to leave for more lucrative opportunities if they don't feel their salary is rising with inflation. But according to David Herrera, head of people and organization analytics at Korn Ferry, despite these challenges, employers should remember to approach wage inflation in context.

"Wage inflation is only a problem when productivity and business outcomes are not aligned to the rate salaries are increasing," Herrera said. "Fighting wage inflation is about ensuring your investment in your workforce is paying off."

Essentially, fighting wage inflation is a balancing act. Employers must protect their bottom line, but they must also remain competitive in a talent marketplace where 87% of U.S. workers say fair compensation for current employees should be the top priority, according to SHRM research.

To find this equilibrium, employers must understand how every organizational role contributes to their business, Herrera said. Leaders can then compare the costs of each function to its contributions. From there, employers can determine which wage inflation strategies will be most profitable for their business.

This report defines and discusses eight different strategies for fighting wage inflation. There is no silver bullet that works in all cases. Each approach has its benefits and drawbacks. It's up to HR leaders to decide which strategies work best for their business—and implement them as smoothly as possible.

STRATEGY 1: IMPROVING RETENTION RATES

Strong employee retention provides a couple of clear advantages in terms of labor cost savings. First, it spares employers the expensive task of competing for new talent with sky-high salaries. Second, it helps employers avoid the cost of not only finding but also training a brand-new worker.

Improving retention will help cut down on costs incurred via external hiring, according to Thielking. But its reward extends beyond lower labor costs. Robust retention rates will translate to better institutional knowledge, improved workplace culture, and fewer workplace disruptions. “It’s hard to put a tangible dollar value on that,” Thielking said.

Resting to Retain: Bank of America offers employee sabbaticals of four to six weeks to inspire retention and satisfaction. The breaks become available to employees once they have accrued 15 continuous years with the company.

STRATEGY 2: REFRESHING EMPLOYEE RECOGNITION

Recognition is essential to employee engagement. In fact, HR professionals and employees agreed that feeling valued was one of the top four factors influencing the employee experience, according to a 2023 SHRM survey. Feedback, rewards, and appreciation will motivate employees, shoring up the productivity piece of the wage inflation equation. Employers can get creative in their recognition strategy: Catered lunches, gift cards, and team outings will show employees that their work doesn’t go unnoticed.

Such options are fun and relatively inexpensive, but it’s worth noting that positive feedback, the simplest form of employee recognition, is also effective—and it’s free.

“Employee recognition doesn’t have to mean a big glass trophy or a giant financial reward,” Thielking said. “A small amount of feedback and praise goes a very long way for employees.”

She emphasized the importance of frequent and assorted praise. Employees will feel affirmed when they hear regular appreciation from their co-workers, managers, and leaders.

Thielking noted that high-potential employees may also see new challenges as a form of recognition. It may sound counterintuitive, but star employees may feel rewarded for their efforts when offered projects outside their comfort zone because these challenges allow them to develop their skills and potentially advance in the organization. Managers just need to be sure to celebrate workers' successes when they rise to meet these challenges.

This strategy comes with a warning: While offering employees bigger and better tasks can be motivational, it can also inspire burnout. "Be careful to strike that balance between somebody who is appropriately challenged versus somebody who's overloaded," Thielking said.

STRATEGY 3: ELEVATING THE EMPLOYEE EXPERIENCE

When workers feel frustrated with their compensation, their irritation may be exacerbated by underlying issues with their employee experience. In fact, 52% of employees say they may leave their roles because they feel disconnected from their employer, according to a report from Korn Ferry.

Outdated technology, poor scheduling practices, and insufficient training may all contribute to a negative employee experience. Conversely, a positive employee experience is often rooted in a robust listening strategy. Employers that send out pulse surveys, conduct listening tours, and hold town halls develop a clear understanding of their employees' frustrations.

With this information, employers can create a powerful, purposeful experience throughout the employee life cycle, Thielking noted. Without it, employees may see their employers' efforts at driving enthusiasm as random at best or destructive at worst.

Employers may even derail their efforts at retention and recognition if they attempt to provide a positive employee experience without the data they need. "It's hard to separate one of these areas from the others," Thielking said. "They're all intermingled and very synergistic."

For instance, employees who feel they lack the training to perform their jobs safely will feel doubly frustrated if they hear empty praise of their efforts from their manager during an all-hands meeting.

It's equally important to base a positive employee experience on a total rewards package that is fair, Thielking said. Employers must have a compensation philosophy that aligns employees' total earnings with the going rate. Otherwise, employers' steps toward creating an alluring employer brand will feel incongruous.

STRATEGY 4: UPSKILLING EXISTING WORKERS

When employers provide upskilling opportunities, they fulfill a widely held desire among employees to learn and grow. According to a 2023 study from the University of Phoenix, 70% of Americans said they would be more likely to stay at their employer throughout their career if it gave them more opportunities to apply new skills. But 40% of workers said their company never provides reskilling opportunities.

A McKinsey & Company study confirms these findings, reporting that organizations with effective “learning organizations” boast higher levels of retention. Employers that provide an average of 75 hours of training per employee each year promote workers at higher rates and see less turnover.

Employers can ensure they’re improving their workforce’s productivity by offering upskilling and training opportunities, Herrera said. It’s something that’s sorely needed, as 63% of work being performed falls outside of workers’ job descriptions, according to a Deloitte study. And 81% of professionals say work is increasingly being performed across functional boundaries.

It’s important to note that the positive impact of upskilling efforts on wage inflation is short-lived. “As your workforce learns new skills and becomes more productive, it also becomes more attractive in the market,” Herrera said. “In the long term, employers will have to review roles and pay according to their contribution.”

Internal growth for internal mobility: Software development company Model N fosters employee growth and encourages internal mobility through its annual career development series, “Dare to Grow.” The series aims to help employees create personalized development plans that align their career aspirations with their strengths, interests, and skills gaps.

STRATEGY 5: EXPLORE NEW FRONTIERS WITH RESTRUCTURING

Restructuring is a common strategy for cutting labor costs. But Herrera sees restructuring as more than just a cost-saving measure. Employers can change the way their organization operates to improve innovation, he said. By keeping at least some of their workforce intact, employers can reach new markets and develop new products by repositioning their employees.

“Organizations using this strategy are developing the potential to come out of this unpredictable economy in a better position than the organizations that are just cutting costs,” Herrera said.

However, when an employer approaches restructuring, it must be very careful in how it communicates its plans. “It’s about the message you send the organization,” he said. For example, if the changes are going to impact the organization at large, employers should emphasize that to employees. Employees will want to know that this will impact roles across the board—not just managers and below. Without such a robust communications strategy, restructuring can have dire repercussions for employee morale and productivity.

STRATEGY 6: LEVERAGING NEW LABOR MARKETS THROUGH OUTSOURCING

Organizations have long used outsourcing as a means of cutting back on labor costs. “It’s not something that arose just because of wage inflation,” Herrera noted.

Employers are right to review their cost structures and question how certain functions contribute to the overall business. For some roles, it’s worth exploring options that allow organizations to leverage lower labor costs. Herrera noted, however, that employers should generally keep core business roles in-house because of the institutional knowledge needed to carry them out.

Herrera also emphasized the importance of cultivating a robust understanding of the culture of the country where you’re outsourcing. “If you outsource a role, make sure the external labor you leverage aligns with the way you work and your company values,” he said.

Employers must think beyond the basic practical details, such as time zones and labor laws. The roles an employer outsources to a new workforce must be a good cultural fit. For example, a business that values warm, personable customer interactions may want to avoid outsourcing customer-facing roles to countries where such conversations are expected to be brief.

STRATEGY 7: ADJUSTING TOTAL COMPENSATION PACKAGES

Employers may be able to provide slight salary increases by offering and incentivizing benefits that make smaller impacts on workers' take-home pay. To emphasize these savings, employers must be diligent in their benefits communication, showing employees how different packages impact their paychecks.

Regardless of employees' benefits selection, total rewards statements help employees envision the dollar value of their health care coverage, 401(k) plans, and other benefits. Similarly, increased pay transparency can help reassure employees that they're being paid at or above the market rate.

Bespoke communication for better benefits selection: Grainger, an industrial supply company, fights benefits communication fatigue with information campaigns tailored to specific employee populations. It may send desk workers emails, but it holds in-person meetings with printed materials for talent on the factory floor.

Of course, employers can scale back labor costs by reducing benefits outright or cutting workers' pay. Among the wage inflation strategies, this one may carry the most risk. "Organizations need to be very careful," Herrera said. "This is something we'd recommend only when there is no other option." It's likely this strategy will significantly damage employee engagement, and talent will look for new roles outside the organization.

Herrera noted that many employers that cut staff and wages at the onset of the pandemic experienced this very result. The repercussions were not just short-term—these organizations lost more talent when the labor market made a resurgence the following year, and the demand for talent soared.

STRATEGY 8: AUTOMATE—BUT DON'T FORGET TO AUGMENT

As AI tools grow more prominent and sophisticated, fear is spreading among workers that technology will make them obsolete. But AI doesn't have to mean layoffs, Herrera said, and many HR practitioners agree: 65% of HR leaders say they think AI could improve the performance of most roles in their organization, according to a survey from Gallup.

Employees can leverage AI tools in two ways, Herrera said: through automation and augmentation. Automation is a cost-saving strategy, while augmentation prepares employees for the next opportunity.

The two approaches can often be united to increase productivity, boost efficiency, and spur innovation. Herrera pointed to repetitive procedures within HR that could be automated—the exit survey, for instance. An HR department could program its HRIS to send an exit survey to every employee who leaves the organization. It could also build dashboards so it can quickly advise leaders based on the data it receives.

This type of automation easily translates to augmentation, Herrera said. Without the need to manually send an exit email to each departing employee, HR professionals would have "a lot more time in their day to add value to the organization as a whole."

CONCLUSION: EMBRACING STRATEGIES FOR LONG-TERM BUSINESS HEALTH

For leaders grappling with wage inflation, the stakes are high, the problems complex, and the solutions elusive. But it's possible to manage labor costs and propel productivity. Employers just need the right approach.

To develop a successful plan, leaders need to choose wage inflation strategies based on an accurate, detailed understanding of their present situation. They also must predict and counteract the repercussions their strategies may have. Whichever option they choose, they must be confident in their decision, Herrera said.

Leaders must also cultivate a forward-thinking mindset to determine how a strategy might position their business in the future. "The worst thing you can do is realize five years later that the strategy you chose means you can't move to a new market," Herrera said, reminding employers that surviving wage inflation isn't just about cutting costs at the moment, but about creating opportunities for productivity and innovation in the years ahead.