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Globalization, advances in technology, shifts in the composition of the workforce and intense competition among businesses are reshaping how people work and interact at work. In fact, the rapid changes in genetics, artificial intelligence, digital technology, robotics, nanotechnology, three-dimensional printing, biotechnology, smart systems and electrical grids make some think that a Fourth Industrial Revolution, which will transform society and the work that it does, has arrived (World Economic 2016). Computers, mobile devices and internet connectivity have made work accessible from virtually every place on earth, no longer requiring many workers to commute to a place of employment while at the same time making them available to clients and their bosses 24/7. Companies are deconstructing jobs into their component responsibilities to better match jobs with employee capabilities and enhance effectiveness and efficiencies. Finally, intense competition is placing increased pressure on companies for ongoing innovation and cost control.

Work is not only being reshaped by technological advances but by a workforce that is becoming more

diverse in almost every demographic dimension, including gender, age, nationality, religion and ethnic origin as compared to previous generations. Society and societal values are also experiencing a rapid pace of change as is reflected in a broader social acceptance of individual differences and increased advocacy for tolerance of alternative lifestyles, values and preferences. Similarly, employee values and preferences are increasingly shaping work culture and the physical workspace based on increasing demands for work-life balance, work schedule flexibility and opportunities to work from home. These changes are accompanied by more frequent performance and development feedback, which in turn may offer more opportunities for professional advancement via vertical or lateral mobility (World Economic 2016; UK Commission 2014).

These technological and workforce changes have created significantly more demand for certain skill sets. Not only has work itself evolved, but the employment relationship has changed as organizations are increasingly employing more independent contractors, consultants and temporary workers to fill gaps. Work that was a standard part of many organizations has been outsourced, off-shored or given to contingent workers as companies continuously strive to find the most efficient way of operating. Although considerable research and thought has been given to how work and the workplace are changing and will change over the next decade, the authors could locate no systematic considerations of how employees will be rewarded for work in the future. In fact, with the exception of mandated regulatory changes, the reward systems relied upon most, (i.e., base-pay, incentive and benefit programs), have changed little in previous decades.

The purpose of the reported study was to identify how changes in work and the workforce will drive changes in how people are rewarded. This study considered rewards from a total rewards perspective, which includes base pay, incentives, employee benefits and forms of nonfinancial rewards such as individual development, career opportunities and work environment.

METHODOLOGY

To learn how work is changing and how that work will be rewarded in the future, the authors examined data from two sources. First, they examined data collected from senior executives in *Fortune* magazine's "2016 Most Admired Companies" survey conducted by Korn Ferry-Hay Group. This data was collected from large publicly held organizations (at least $3B+ in revenue) in the United States and non-U.S. publicly held global organizations (at least $10B+ in revenue).

The "Most Admired Companies" are organizations that rank in the top half of their industry sector (from 55 predefined industry groups) based on an average of nine attributes measuring corporate reputation. Peer organizations are those ranked in the bottom half of their industry sector. Assessors of organizations used by Korn Ferry-Hay Group consisted of C-suite executives, directors and industry analysts.

The nine attributes used to determine the ranking were:

1 | Ability to attract and retain talented people
2 | Quality of management
3 | Quality of products or services
4 | Innovativeness
5 | Long-term investment value
6 | Financial soundness
7 | Wise use of corporate assets
8 | Social responsibility
9 | Effectiveness in conducting business globally.

In addition to the overall *Fortune* "World's Most Admired Company" rankings, Korn Ferry-Hay Group collected data from C-suite executives (e.g., CEOs, CFOs, COOs, CHROs) from more than 700 of these companies using closed and open-ended questions concerning the future of work and rewards. The authors examined how C-suite executives responded to the following questions:

- How important is the changing nature of work as a focus area for your senior executives?
- What impact has the changing nature of work had on the economic performance of your organization?
- How has your organization planned or taken steps in preparing for the changing nature of work?
- How do you see the work environment and structure of work changing in the next 10 years?
- How do you see leadership requirements changing in the next 10 years?
- How important will nonfinancial rewards be in the next 10 years?

Second, the researchers supplemented this information with interviews of senior rewards and HR leaders at 12 Fortune 500 companies. These structured interviews lasted about 90 minutes. Approximately half of the interviews were conducted in person and the other half were conducted by phone. Questions in the structured interviews included:

- How will your workplace and composition of the workforce change during the next 10 years?
- How have economic conditions affected your workforce and the employment relationship you have with employees?
- How is government and employment legislation affecting employment relationships and how jobs are structured?
- How will reward systems change?
  - Will reward systems become more or less centralized?
  - Will reward systems become more or less tailored by business units or by employee preferences?

- Will reward systems become more or less complex; easier or more difficult to understand?
- How do you see technology evolving to deliver rewards programs?

RESEARCH FINDINGS

Changes in the Work and the Workforce

The "World's Most Admired Companies" survey indicated that 78% of executives surveyed think that the changing nature of work is an important area of focus for their companies. In fact, 74% of executives think that the changing nature of work is having a net positive impact on their organizations, with only 6% believing that it has a negative impact on their organizations. When asked how their companies were preparing for the changing nature of work, executives said they are taking the following steps:

❚ Determining the composition of the workforce they will need in the next 10 years (72%)

❚ Determining the capabilities the workforce will need in the next 10 years (72%)

❚ Determining the capabilities needed in their leadership team in the next 10 years (73%)

❚ Determining the requirements to attract, engage and retain talent for their companies (74%).

As can be seen in Figure 1, executives think that organizational restructuring will be an ongoing process rather than a periodic event (85%); and that more effective tools for assessing employee capabilities and performance will support continuous realignment of people and work. In short, work and organizational structures will change and employees must adapt to this change to remain relevant in the workplace. It is interesting that far fewer executives agree that part-time and contract workers will represent a greater share of the workforce (45%) than it does today, and only 24% believe that there will be a shift away from loyalty and retention to shorter-term relationships with their company.

Executives responding to the "World's Most Admired Companies" survey also agreed that the roles and requirements of leaders will change. Figure 2 shows that a vast majority of leaders identified agility (91%), authenticity (openness and transparency, (87%), emotional intelligence (86%), and the ability to embrace diversity (84%) as the most important capabilities for leaders in the future. Given the impending changes in work and the workforce, leaders will be expected to manage a more diverse and complex set of working relationships and people. Leaders will be expected to inspire and influence employees versus commanding and directing them, especially employees who do not directly report to them or who have multiple reporting relationships in matrixed organizations.
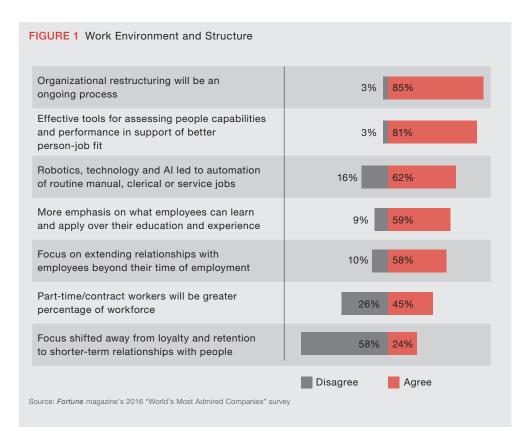
FIGURE 1 Work Environment and Structure

Statement	Disagree	Agree
Organizational restructuring will be an ongoing process	3%	85%
Effective tools for assessing people capabilities and performance in support of better person-job fit	3%	81%
Robotics, technology and AI led to automation of routine manual, clerical or service jobs	16%	62%
More emphasis on what employees can learn and apply over their education and experience	9%	59%
Focus on extending relationships with employees beyond their time of employment	10%	58%
Part-time/contract workers will be greater percentage of workforce	26%	45%
Focus shifted away from loyalty and retention to shorter-term relationships with people	58%	24%

Disagree   Agree

Source: *Fortune* magazine's 2016 "World's Most Admired Companies" survey

FIGURE 2 Leadership Requirements

Requirement	Disagree	Agree
Agility	2%	91%
Authenticity (openness and transparency)	2%	87%
Emotional intelligence	2%	86%
Embracing diversity	4%	84%
Conceptual thinking	3%	81%
A global mindset	4%	78%
Working with people in other organizations	9%	78%
Skill with data and analytics	4%	76%
Humility (acknowledging mistakes, limits)	5%	69%
Facilitating virtual collaboration	10%	56%

Disagree   Agree

Source: *Fortune* magazine's 2016 "World's Most Admired Companies" survey

It is interesting that "facilitating virtual collaboration" fell toward the bottom of the list of leadership requirements (56%). This may be a function of considerable attention and focus already spent in this area.

The structured interviews conducted with rewards and HR leaders provide additional insight and perspective as to how the work environment will likely change. Most leaders agree that the amount of virtual work will continue to rise with the increased use of mobile work tools, and that traditional workplaces will be downsized and redesigned to be consistent with a physical space in which employees do not report to the office every day.

The prediction that organizations would become more networked, matrixed and flatter was virtually unanimous among study participants as it was currently taking place in most of their workplaces. HR and rewards leaders think that evolving work structures will result in employees having multiple reporting relationships and leaders having less formal control and authority. These types of work structures will push decision making and problem solving to lower and broader organizational levels and place increased emphasis on employee collaboration, flexibility and adaptability. Finally, the respondents predicted that technology will allow employee time and performance to be more closely monitored and analyzed, and that boundaries between personal time and work will become increasingly blurred.

CHANGES IN TOTAL REWARDS

Executives responding to the "World's Most Admired Companies" survey clearly think that in the future, more importance will be placed on measuring and rewarding work fairly (75% agreed while only 4% disagreed). This is consistent with the interviewed rewards and HR professionals who said that newer entrants to the workforce demand more rewards transparency and are more willing to challenge management if they think that their rewards are unfair. Furthermore, 77% of executives agreed that employers must provide a stronger value proposition to engage and retain employees. That said, next the article will specifically look at how rewards and HR leaders think the different categories of total rewards will be affected. The study framed "total rewards" to include base pay (e.g., wages and salary), variable pay (e.g., incentives, bonuses), benefits, employee training and development, career development and work environment.

Base pay (e.g., wages and salaries). Base pay is typically thought of as the fixed pay employees receive for the position they hold. Rewards leaders who were interviewed indicated that the pay structures that cover a variety of jobs primarily using pay surveys are becoming problematic for several reasons. First, scarcity of some employee groups, such as those in science, technology and engineering, inflate the value of certain jobs where there is greater demand than supply. This problem can be compounded by economic changes driving tight and loose labor markets. Second, rewards leaders have noted that with increased uniqueness in job

design, job requirements and matrix management structures, it is becoming more difficult to match jobs to compensation surveys. Several interviewees indicated that they are finding that they can only match fewer than 25% of their professional and management jobs to compensation survey job models. This has resulted in organizations requiring more robust work measurement/grading solutions and internal management processes to adequately identify the appropriate value of these jobs.

Perceptions of employee fairness in pay systems are a concern for most employers. Employees want to know why there are pay differences between jobs that are at similar levels, and why special "goodies" are given to some employees and not others. Employees are often not informed or do not understand how labor markets affect their compensation, eroding their ability to determine if they are being paid fairly compared to other employees. Further, there are a variety of employment relationships (e.g., part-time, temporary, individual contractor and consultant) that can have a substantial impact on how much an individual is paid. This becomes problematic when regular employees, contractors and part-time employees work together. Finally, social media and the transparency of some websites (e.g., salary.com, glassdoor.com) provide employees with a variety of data to make a case that their pay system might be unfair.

Variable pay. Although there is a continued appetite among shareholders and management for incentive plans and bonuses funded based on performance of the company, employees have less enthusiasm for these types of plans because they question their individual ability to affect companywide performance. Rewards leaders interviewed for this study think that eligibility and award levels for variable-pay programs were extended down into the organization about as far as they will be. Thus, they do not predict significant expansions of variable pay to the workforce in the future. However, they thought that smaller spot recognition awards initiated by supervisors and peers will increase in usage.

Employee benefits. Given the uncertainty of political support for the Patient Protection and Affordable Care Act of 2010, rewards leaders expressed caution in terms of making substantial changes to health-care benefits offered, at least in the short term. Cost savings in this area are hampered by the inherently limited options available to employees in comparison shopping for health care.

Rewards leaders did express significant concern that employees were not saving enough for their retirement, even when employers offered matching funds. Although opt-out retirement savings programs were suggested as a method to increase employee saving, management is reluctant to initiate these programs because it will increase their costs in matching employee contributions.

Interview respondents indicated that employee benefits are still considered a critical element of the total rewards package required to attract and retain talent. However, to attract and retain employees, surveyed rewards and HR leaders are considering a variety of emerging benefits that had not been previously offered

by their organizations, including paid parental leave, student loan repayment, wellness and fitness benefits and access to convenience/concierge services to help employees manage their personal lives.

Employee and career development. In recent years, many employers have focused on hiring "job ready" candidates and having a culture where employees were primarily responsible for their own development and career management. However, the current scarcity of available talent and increased need for organization bench strength and critical skill building is changing this mindset among the HR and rewards professionals who were interviewed. Most agreed their talent management functions have an increased focus on cost-effective employee-development and career-advancement frameworks. In addition, several organizations mentioned the need to more holistically integrate their talent management and rewards programs so that personal- and career-development opportunities are increasingly aligned with compensation program management, particularly in base pay and promotion management.

Work environment. The transformation of the work environment was a major issue for all the HR and rewards leaders who were interviewed. They indicated that changing work expectations and technology that allow worker mobility have created a situation where they are struggling to develop relevant and consistent work rules and policies. HR and rewards leaders agree that employees have a strong preference to work off-site at least part of the time or to be remote workers. Although worker scarcity has forced employers to use remote workers and allow work to be done from home, many HR and rewards leaders have expressed challenges about how to manage work flows, develop talent and build commitment to the organization in this changing environment.

During the past three decades, the workplace has evolved from offices to cubicles to open work plans and hoteling arrangements. Now employers are creating a variety of work environments including offices, cubicles, open work plans and places where one can get a coffee, sit on sofas and discuss business issues in a more casual living-room type of environment. The idea is to provide employees with a variety of work environments from which they can choose based on the work to be done as well as their own preferences.
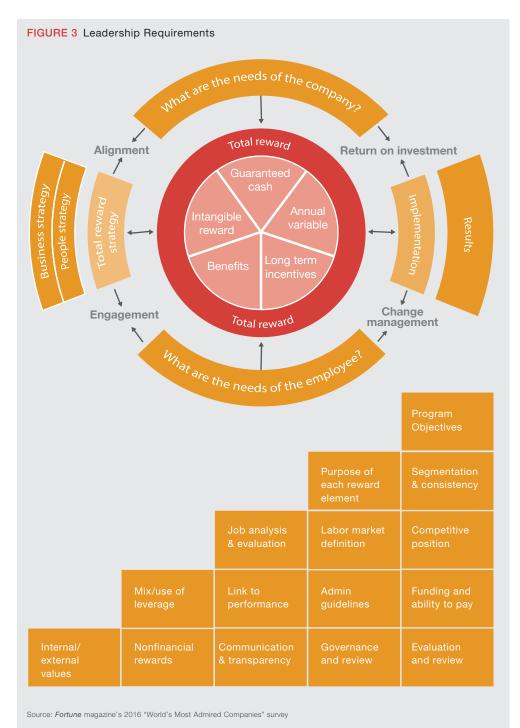
CONCLUSIONS AND RECOMMENDATIONS

As is evident from this research and other recent studies, work and the workforce will change significantly during the next decade. These changes include greater use of technology, work mobility, the restructuring of jobs and reporting relationships, increased use of alternative employment relationships and more blending of personal and work time. Furthermore, the workforce is becoming more diverse, some jobs are in higher demand than others and employee expectations are changing. Although changes in work and the workforce have received considerable attention in the domains of business, government and

the popular press, how employees will be rewarded in the future is seldom discussed. Increased complexity of rewards programs and more diverse employee populations will likely result in emerging rewards and changes in the perceived value of existing rewards as well an increasing emphasis on nonfinancial rewards for retention and a stronger employer value proposition. However, the development of evolving rewards programs will force HR and rewards professionals to address certain challenges or dynamic tensions, which likely include:

- The customization of rewards for employee segments or for individual employees can easily create perceptions of injustice across the organization if not effectively managed and communicated.
- There will be increased complexity in rewards program management, but with likely limited to no expansion of resourcing in the total rewards function. Emphasis will likely be on equipping leaders and line managers to carry a heavier rewards program management load.
- Increased autonomy in total rewards decision making at the line-manager level will likely stress pay equity management (especially between protected classes), which has become of greater concern during the past several years. An increased focus on pay equity management will place more emphasis on transparent rewards strategies, processes and communications to create a greater sense of fairness in the workplace.
- Pressure to pay key professional talent differently and more than other employees can create resentment among those who are not identified as such.
- Stronger employer expectations that employees must be "work ready" and manage their own development and careers, while at the same time employees are placing a higher priority on opportunities for development and career advancement offered by employers, may create an inherent conflict of interest.
- Organizations are pushing managerial responsibility to lower organizational levels while at the same time technology allows managers to more closely monitor employee time, work activities and results.

Given how work is going to change, the authors recommend preparing your organization for the future work and its impact on rewards by:

1 | **Engaging leadership about the future.** If you haven't done so already, consider engaging your leadership in a discussion about the future of work and its impact on rewards. This includes getting key HR and rewards leadership in the discussion if they are not in it already. Consider a combination of leadership and management interviews and employee surveys to facilitate a dialogue around how the future of work affects your workforce, operating model and organization structure, talent management strategy and rewards processes. Relative to rewards, it is imperative to get leaders aligned with rewards strategy before key programs are redesigned or new pay programs are considered.

2 | **Ensure your rewards strategy is robust.** As shown in Figure 3, rewards strategies go far beyond simple statements such as "paying competitively, paying fairly and paying for performance." Formulating a clear, communicable and defensible rewards strategy is about unpacking what those statements really mean (i.e., what does "competitive," "fairness" and "performance" mean?). It clarifies roles and governance in the rewards program, the purpose and intent

FIGURE 3 Leadership Requirements

Source: *Fortune* magazine's 2016 "World's Most Admired Companies" survey

of various components of rewards including nonfinancials, and how disconnects between internal and external market values are reconciled.

3 | **Build out nonfinancial rewards.** This research has underscored the importance of nonfinancial rewards in the evolving future of work. It is important that the organization — both leaders and employees — understands the array of nonfinancial rewards that are currently offered and that they also understand which nonfinancial rewards are seen as least and most valuable to different employee segments. The organization has a great opportunity to build tools to support managers' ability to leverage rewards by using mechanisms such as:

- Work climate assessments, managerial styles feedback.
- Career frameworks and job design tools. (Note that young employees prefer more frequent career steps even if they are smaller and pay adjustments are not as large.)
- Employer value propositions, total rewards statements and other communication tools.

4 | **Unpack the notion of fairness.** Given that fairness in rewards is such a hot topic today (e.g., gender pay equity concerns, regulatory environment around executive pay transparency, etc.), it is increasingly important for organizations to have a better understanding of manager and employee perspectives regarding fairness. In addition, decoding your organization's value system, defining how fairness translates to your rewards programs and enhancing those rewards systems that most affect fairness (e.g., performance assessment, promotion decisions, pay decisions and job evaluation) are all areas in which organizations are advised to focus. In addition, developing management capability and strong communication processes are key sustaining mechanisms.

5 | **Remote employees.** Assess the benefits and costs of allowing employees to work from home occasionally or to be remote employees. What impact does working remotely have on job performance, commitment to the organization and employee development? Consider developing criteria that can be used to determine whether a person can work from home or remotely, based on nature of work, capability or seniority, performance, etc.

6 | **Evaluating rewards effectiveness.** To ensure that rewards programs are effective over time, consider making a strong business case for rewards program assessment, especially if your organization does not currently measure program effectiveness. Take a holistic and balanced approach to measurement and don't limit your organization to a few quantitative, operational or financial metrics. In addition to including managers and employees in the assessment of effectiveness, the authors have found an increasing trend for leading organizations to involve these stakeholders in considerations of changes in rewards program strategy, and in design, pilot testing and execution of new programs.

While the future is never certain, considering these initiatives should make your rewards programs more effective and in a position to adapt quickly and appropriately to change. ▮

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