

Signaling Theory and the Role of Incentives and Rewards in Attracting Talent

The COVID-19 pandemic initially drove mass layoffs, vaulting the US unemployment rate to almost 15% at its peak in April 2020, the highest in more than 70 years.¹ In COVID's continuing wake, however, the jobless rate has dropped precipitously, to just over 2% for degreed workers and 4% overall.² This and unprecedented churn has created turmoil in many industries, including in retail and hospitality where many employers say they cannot find sufficient talent to fill vacancies.^{3,4}

Perhaps more than at any time since the late 1990's, recruiting is among the most critical functions for many businesses. And while there is no shortage of advice and innovative ideas surrounding the hiring process, much less has been written about the role of incentives and rewards in attracting talent.

Why rewards and incentives? In poll after poll, people today report a disturbing malaise. According to a University of Chicago Survey, which has tracked Americans' attitudes since 1972, those who say they are generally unhappy increased from about 12% before the pandemic to more than 25% in 2021.⁵ A 2021 report by McKinsey & Co. revealed a significant rise in worker burnout during COVID, particularly among women.⁶

According to a 2022 review of conditions driving the "Great Resignation," the exceptional numbers of people leaving their jobs boils down to toxic workplace cultures. The authors' analysis reveals that work environments plagued by disrespect, mistrust, and exclusion drive more than ten times the attrition than drivers related to compensation and other factors.⁷

¹ See: <https://www.bls.gov/covid19/effects-of-covid-19-pandemic-and-response-on-the-employment-situation-news-release.html> and

² Ibid

³ I. Fowers and A. Van Dam (Dev 29, 2021) *The most unusual job market in modern American history, explained*. Washington Post. See: <https://www.washingtonpost.com/business/2021/12/29/job-market-2021/>

⁴ D. Sull, C. Sull and B. Zweig (2022). *Toxic Culture is Driving the Great Resignation*. MIT Sloan Management Review. See: <https://sloanreview.mit.edu/article/toxic-culture-is-driving-the-great-resignation/>

⁵ University of Chicago – NORC (2021) *Trends in General Happiness*.

See: <https://gssdataexplorer.norc.uchicago.edu/trends?category=Gender%20%26%20Marriage&measure=happy&Measure%20Category=Very%20happy&Breakdown%20Label=Total>

⁶ McKinsey (2021). *Women in the Workplace*.

See: <https://womenintheworkplace.com>

⁷ See Sull and Zweig above

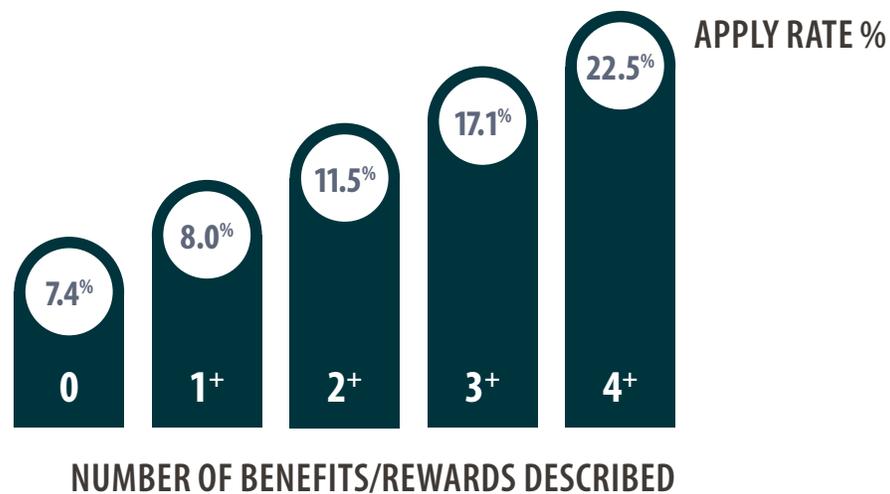
Lessons from Signaling Theory

Research by the IRF and others have revealed deep, evidentiary links between workplaces that emphasize appreciation and recognition with increased social capital, trust, and inclusivity.⁸ The same research concludes that these hallmarks of a 'strong culture' increase engagement and reduce attrition, but can they also attract people to the organization?

Intrigued by a 2016 analysis of 1400 case studies by the UK-based Institute of Practitioners in Advertising (IPA), we set out to explore that question in a joint IRF/Harvard Business School/University of Quebec study published in 2017. The IPA study compared the profitability boost of consumer ad campaigns that relied primarily on emotional appeal versus those that used rational persuasion and information. Campaigns with purely emotional content performed about twice as well (31% vs. 16%) as those with only rational content.⁹

A 2017 analysis of 93,000 unique job ads, conducted by recruitment advertiser Appcast, revealed that where firms describe benefits and rewards, including incentive travel and learning opportunities, they garner up to 300% more applicants than those who do not.¹⁰ In our 2017 study, we found that **apply rates to job advertisements increased, from 7.4% to 22.5% as more benefits/rewards offered by the firm were listed** (Figure 1, below).¹¹ Clearly the same effects noticed in consumer branding apply to employer branding.

Figure 1: More benefits described, more applicants



HBS/IRF 2019

⁸ Academic Research in Action: <https://theirf.org/research/academic-insights/>

⁹ Roger Dooley (2017). *Research Shows the Most Effective Advertising Focuses on Emotion*. Neurosciencemarketing.com. See: <https://www.neurosciencemarketing.com/blog/articles/emotional-ads-work-best.htm#>

¹⁰ A. Schweyer (2017). *The Rise of the Digital Marketer*. Appcast. See: <https://info.appcast.io/on-demand-webinar/the-rise-of-the-digital-talent-marketer-website>

¹¹ Thibault Landry, A., Schweyer, A., & Whillans, A.V. (2017). Winning the War for Talent: Modern Motivational Methods for Attracting and Retaining Employees. *Compensation & Benefits Review*, 49, 230 - 246.

Wanting to explore why describing benefits and rewards increases candidate interest, myself and colleagues at Harvard Business School conducted another study in 2019. In it, we found that job seekers pay even more attention to advertised non-cash benefits and rewards when those benefits are described clearly, including the cash value of the rewards. Importantly, this appears to cause job seekers to cast those potential employers in a more caring light, and to assume better work-life balance in those firms. In these cases (well described benefits/rewards), **applicants expressed up to 50% more interest in positions than they did similar advertisements (without listed benefits/rewards) from other employers.** This held true even when those other positions offered clearly better total starting compensation.¹²

Our research found that ads and employer branding containing descriptions of benefits and rewards (including their cash value) signal empathy and a caring culture and appear to trigger the same positive response as ads aimed at consumers' emotions. Why? According to decades of academic research into **signaling theory** in circumstances of information asymmetry (e.g. the employer knows far more than the potential applicant) the disadvantaged party looks for signs or 'signals.' In consumer advertising, this might include signals about the credibility and customer-orientation of the firm behind the advertisement. **In job ads and other employer branding, candidates appear to look for and respond to signals that hint at what it might be like to work in an organization.**¹³

This and other research suggest an advantage to employers who promote their job openings with clear descriptions of the range of non-cash rewards they offer. When comparing job options as a potential candidate, it is easy to measure and compare salaries but often confusing and difficult to compare benefits and rewards. **The more rewards signal a positive, caring culture – a message many non-cash rewards convey – the more applicants the firm is likely to attract, even at starting salaries below competitors.** This element of employer branding should extend to the corporate career site and to social media, especially, perhaps, sites like Glassdoor, Indeed, and others where job seekers increasingly look before applying for jobs.¹⁴ Even when leaders speak at events or on webinars, they should remember to spread the word.

A Direct Role for Incentives in Talent Acquisition

Of course, when firms have difficulty recruiting sufficient talent, incentives, rewards, and recognition programs can also make a more direct contribution to solving the challenge. Incentives for successful recruiters and for employees who refer candidates through an employee referral program are obvious starting places. In this case, consider non-cash reward options alongside cash. For example, enter everyone who makes a qualified referral into a quarterly draw for luxury merchandise or exotic travel. This can focus excitement and attention on employee referrals beyond that generated by equivalent cash rewards.

Consider using reward points platforms to encourage employee brand ambassadorship, such as posting positive reviews (that include mention of non-cash benefits and rewards) on sites like Glassdoor and Indeed. Create quick 'day-in-the-life' video clips for the career pages on your website. Consider rewarding and recognizing members of your talent acquisition team who take the time to follow up with prospects who visit your career site but do not apply to a job opening. Incentivize your high performers and/or best brand ambassadors to represent your organization at live or virtual career fairs. Remember too that firms often lose their best prospects to competitors with a more efficient hiring process. In this case reward interview panels and hiring managers who reduce 'time-to-offer,' especially in your most competitive, hard-to-fill positions.

¹² A. Whillans, J. Yoon and A. Schweyer (2019) *From Dollars to Sense: Placing a Monetary Value on Non-Cash Compensation Encourages Employees to Value Time Over Money.* Harvard Business School Working Paper 18-059

¹³ B. Yasar, T. Martin and T. Keissling (2020) *An empirical test of signalling theory.* Vol. 43 No. 11, pp. 1309-1335. <https://doi.org/10.1108/MRR-08-2019-0338>

¹⁴ Glassdoor (2017) *Informed Candidates Survey: Understanding the Impact of Quality Candidates.* See: www.glassdoor.com/press/app/uploads/sites/2/2017/10/GD_InformedCandidateSurvey_2017.pdf

Summary

Recruiting operates within the broader *system* of talent management. Rewards and recognition that encourage better onboarding, learning & development, career progression, collegiality, and inclusivity help build the kind of culture and brand that talent flocks to. Firms that have built strong cultures should borrow from the lessons of signaling theory to communicate that culture, even through the limited mediums of job advertisements, corporate career sites, and social media. Reward designers should also recommend the direct use of rewards to encourage the range of actions and behaviors that contribute to more and better hiring.