COMP IS CULTURE
2017 COMPENSATION BEST PRACTICES REPORT

Thanks A Latte!

PayScale
HUMAN CAPITAL
A PAYSCALE RESEARCH REPORT
THANKS A LATTÉ
[ THANKS A LAH-TEY ]

IDIOM

1. A sarcastic aside referencing a pay increase so small, it equates to about one latte per paycheck.
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EXECUTIVE SUMMARY

We’ve been collecting data on pay practices from business people — HR professionals, finance people, operations types, and others — for eight years now and providing an in-depth report on compensation best practices. In that time, we have emerged from a serious recession, seen the tightening of labor markets, and become more sophisticated in our data collection and analysis for this report. For example, we now capture more responses from larger and international organizations.

For the second year, we measured what separates the best from the rest. We compared top-performing companies — those who identified as number one in their industry and who met or exceeded their 2016 business goals — against typical companies to see what market leaders are doing differently.

We have also heard and been part of the emerging conversation on pay transparency. From Hollywood to Silicon Valley, and from healthcare to manufacturing, stories emerge daily highlighting the lack of trust caused by unfair pay practices (real or perceived). Much of the failure is unintentional. Transparency is emerging as a powerful antidote to this eroded trust, and we believe this trend will continue. Of course, to be transparent at any level, requires a commitment from the executive suite. It also requires confidence in your data, your rationale and your intent so that you can communicate it effectively.

Data is data. Sometimes an answer emerges immediately, and sometimes answers are more elusive. They can require deeper analysis, an unpacking of elements. In the past two years, we have learned, by comparing our business respondent data with data we collect every day through our consumer survey, that employees and employers often think quite differently about how a company is doing. We call this “the corporate chasm.” In talent, like marketing, perception is everything. If your employees don’t know that you source data carefully, ethically; if they don’t know that you have built a market-based pay structure; if they don’t know that you target the 65th percentile for most jobs, how can you get credit for those choices? You can’t.

That’s why we’ve titled this report "Comp is Culture." We attempt to accomplish multiple purposes with this report. We hope that day-to-day compensation practitioners, whether in HR or finance or an operations team, will appreciate the opportunity to gain some insights by comparing their pay practices with respondents to this survey. We also hope to provide insights into the impact of compensation at companies. Increasingly in our work with more than 6,000 customers who rely on our data, software, and analytics to make pay decisions for more than 13 million employees, we hear from C-level executives who think about compensation somewhat differently than their compensation teams do. The CXOs, including Chief People Officers, are beginning to realize that the talent game is about reputation — your ‘Pay Brand’ — and that how you pay, what you value and how you communicate that to your employees is integral to how engaged your employees are. Their perception will significantly impact how they feel about working for your company, and perhaps most importantly, whether they plan to stay or go.

So, whether you’re hoping to see what’s happening in incentive compensation — are bonuses being given more frequently? (they are); or whether you just want to know who’s deviating from the tired old 3 percent formula (11 percent of companies gave an average increase of 5 percent or more) — we hope this report helps you make compensation a more powerful tool at your organization to help connect rewarding your teams with building success into your organization’s culture.

Tim Low
Senior Vice President, PayScale
HIGHLIGHTS FROM 2017 COMPENSATION BEST PRACTICES REPORT

The C-Suite cares even more about comp. Fifty-seven percent of organizations agree that employee compensation is becoming more important to their executives.

2016 marks the return of cash. Thirty-four percent of organizations say the highest base pay increase they gave to an employee topped 10 percent. And, 11 percent reported an average increase over 5 percent.

Fresh data is critical. While 53 percent of organizations have done a full market study within the past year, 47 percent reference market data for individual jobs more frequently than annually. Thirteen percent do so at least weekly and that number rises to 39 percent among enterprise organizations.

Organizations set their sights on increased transparency. Currently, 31 percent of organizations identify themselves as being transparent (a level three or greater on PayScale’s Pay Transparency Spectrum). Nearly half of all organizations aim to be transparent in 2017 (49 percent).

Employers and employees disagree on “fair pay.” Forty-four percent of employers say their employees are fairly paid, but only 20 percent of employees agree.
2016 Year in Review

Last year was a busy year for HR, compensation professionals and business leaders. Between the elections, the landmark Fair Labor Standards Act (FLSA) ruling (and its delay and potential reversal), and keeping up with an increasingly competitive market – unemployment rates were at 4.6 percent at time of print, as opposed to 10 percent in 2009 – most of us were on our toes all year. In this section, we’ll explore what happened in 2016.

Who’s in Charge of Compensation?

As of 2016, compensation has officially expanded from “just a human resources issue” to a C-suite issue. Almost 57 percent of organizations agree that compensation is becoming more important to their executives. Executives have long been the keepers of the budget, so that part isn’t new. But now we’re seeing more executives who understand the strategic value of compensation and how critical it is to accomplishing business goals.

Also, managers are getting much more involved in compensation. While they’ve been the main communicators of compensation changes for a while, we’re starting to see managers participating more in recommending (42 percent) and even approving (12 percent) pay decisions.

Role in Compensation by Position
That said, there remains a large disparity between who approves compensation decisions (CEO and CFO) and who communicates those decisions (HR and functional managers). Asked to describe the role that various positions have in determining compensation, functional directors, HR teams, and functional managers all play some role. The approval power, however, is largely held by the VP or C-Suite, with the CEO still holding the vast majority of the final say over pay (78 percent.)

Curious about who crunches the numbers and makes pay recommendations in organizations? Almost 33 percent of all companies have a compensation team. The compensation team is most likely to report to the CEO (42 percent) vs. the CFO (9 percent) or CHRO (27 percent), if a company has one.

Who Comp Team Reports to by Organization Size

<table>
<thead>
<tr>
<th>Size of Organization</th>
<th>CHRO</th>
<th>CFO</th>
<th>CEO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small</td>
<td>6%</td>
<td>7%</td>
<td>10%</td>
</tr>
<tr>
<td>Mid</td>
<td>18%</td>
<td>13%</td>
<td>15%</td>
</tr>
<tr>
<td>Large</td>
<td>19%</td>
<td>9%</td>
<td>15%</td>
</tr>
<tr>
<td>Enterprise</td>
<td>10%</td>
<td>15%</td>
<td>10%</td>
</tr>
</tbody>
</table>

The short of it is that while executives are starting to care more about compensation, they still keep their cards close to the vest. The impact on the organization is that managers may not always have the information, buy-in, or resources they need to effectively communicate compensation. But we’ll get to that soon.
What Are You Doing for Pay Raises This Year?

One of the most common questions that comes up when companies start talking about comp is, “What are you doing for raises this year?” Most companies give them, and top-performing companies were especially likely to give raises in 2016 (87 percent vs. 78 percent of typical companies).

When it comes to pay raises, it’s less about who and more about how. Let’s see how organizations are administering compensation this year.

Merit Increases – The Death of 3 Percent?

As in prior years, the most typical amount budgeted was 3 percent. Three percent has been the magic number for years now. It is considered the pay path of least resistance. Yet, as turns it out, not everyone gave 3 percent. While 31 percent of companies budgeted the typical 3 percent increases, only 26 percent actually gave 3 percent raises in 2016, some favoring higher average increases, some lower. In fact, 10 percent of companies budgeted more than 5 percent for increases. Those extra 2 percentage points are huge and nearly double the available funds dedicated to pay raises.

Budgeted and Average Increases in 2016

Note: Budgeted amounts are as a percentage of total organizational salary budget.
And it doesn’t stop there. Thirty-four percent of organizations gave upwards of 10 percent as their highest base pay increase to any individual employee. Not too shabby.

- 10 percent budgeted over 5 percent
- 11 percent gave an average increase over 5 percent
- 34 percent gave a highest increase over 10 percent

**Highest Increase Given to Any Employee in 2016**

<table>
<thead>
<tr>
<th>Highest Base Pay Increase</th>
<th>Percentage of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 1.00%</td>
<td>1%</td>
</tr>
<tr>
<td>1.00-2.99%</td>
<td>12%</td>
</tr>
<tr>
<td>3.0%</td>
<td>8%</td>
</tr>
<tr>
<td>3.01-4.99%</td>
<td>11%</td>
</tr>
<tr>
<td>5.0-7.49%</td>
<td>18%</td>
</tr>
<tr>
<td>7.5-10.0%</td>
<td>17%</td>
</tr>
<tr>
<td>More than 10%</td>
<td>34%</td>
</tr>
</tbody>
</table>

While we don’t know if this signals the death of the 3 percent raise completely, it may well indicate that more companies understand the importance of being strategic about their compensation execution. Companies who don’t pay competitively, and who don’t innovate on their pay practices, risk losing the war for talent. With the unemployment rate at an all-time low, many employees may feel justified in looking around. Organizations must make sure they are constantly monitoring their comp and staying current with the market.

**Differences by Industry and Size**

Companies come in all shapes and sizes. In 2016, so did pay raises.

In all industries, most organizations gave raises, although some industries were more likely to do so. The technology industry was most likely to give base pay increases (84 percent) while the nonprofit industry was least likely (77 percent).
When it came to increases by industry this year, it was tech for the win. In fact, 57 percent of technology companies said their highest raise was 10 percent or more (compared with just 34 percent of all). The tech industry was most likely to budget 3 percent or higher for increases (69 percent vs. 60 percent of all), and even more likely to follow through.

**Budgeted vs. Average vs. Highest Increases by Industry**

<table>
<thead>
<tr>
<th>Industry</th>
<th>Budgeted Increase of 3% or Higher</th>
<th>Average Increase of 3% or Higher</th>
<th>Highest Increase More Than 10%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>63%</td>
<td>53%</td>
<td>56%</td>
</tr>
<tr>
<td>Healthcare</td>
<td>52%</td>
<td>28%</td>
<td>22%</td>
</tr>
<tr>
<td>Nonprofit</td>
<td>47%</td>
<td>22%</td>
<td>22%</td>
</tr>
<tr>
<td>Tech</td>
<td>71%</td>
<td>69%</td>
<td>57%</td>
</tr>
</tbody>
</table>

Company size had a large impact on whether or not companies gave pay increases at all in 2016. The larger the company, the more likely it gave base pay increases.

However, for the small companies that did provide increases to employees, they were more likely to have given an average pay increase of 3 percent or greater than other organizations. In 2016, small companies were most likely to give an average increase of 5 percent or higher.
Enterprise companies were most likely to give large raises (over 10 percent). That said, increases of 10 percent or higher were prevalent at all organization sizes. Also surprising is the number of small and enterprise organizations who gave an average increase of more than 5 percent. The prevalence of high raises could reflect the tightening job market, the focus on retaining top performers, or both. The bottom line is, we now see companies that are willing to go above and beyond 3 percent when the situation calls for it.

**Reasons for Raises**

But why do organizations give increases? Compensation is one of the number one culture-definers for organizations. Does the organization have a pay-for-performance culture? Or is it more focused on tenure? What message does the raise strategy send employees about what the organization values and prioritizes?

The top three reasons for giving increases in 2016 were: performance, retention, and market adjustments. Cost-of-living adjustments (COLA) and resolving internal pay inequities round out the top five. This is unfortunate because, although COLA have been identified as a lagging indicator, they are still commonplace.
Top 9 Reasons for Raises in 2016

68% PERFORMANCE

42% RETENTION

4% MERGER OR ACQUISITION

37% MARKET ADJUSTMENT

12% COMPLIANCE

34% COST-OF-LIVING ADJUSTMENT

18% TENURE

23% HOT SKILLS

26% INTERNAL PAY INEQUITIES (NOT COMPLIANCE-RELATED)

Ultimately the merit question is one that organizations will have to consider and answer for themselves. Start with culture and values, then consider business objectives. Consider the best way to use pay raises as a way to accomplish business objectives, without sacrificing organizational values. Those are the companies that will win the war for talent, and stand the test of time.

Compensation Strategy: Prioritizing Your Compensation Spend

It’s time for organizations to make tough choices about how they want to prioritize pay. Is it best to reward performance? Tenure? Hot jobs? What about hot skills? As competitive markets tighten, the need for a compensation strategy becomes more pronounced. But this strategy isn’t a blanket approach. With so much hot skills data out there, companies can get more specific about which markets they are competing in for talent. A compensation strategy clarifies all these choices so that organizations can correctly align pay to business objectives and culture.
The good news is, most organizations have, or are working on, a compensation strategy: 37 percent of all organizations said they have a compensation strategy already, with an additional 34 percent in development. Top-performing companies are even more likely to have a compensation strategy (47 percent vs. 34 percent of typical companies). This number jumps significantly for enterprise organizations, where 67 percent of organizations have a compensation strategy.

Ultimately, a compensation strategy is about being intentional with your comp spend. A comp strategy factors in every comp driver: culture, performance, hot jobs, and even hot geographic markets. It’s about having a compensation plan that is the result of strategic decisions. The strategy puts all the competitive choices into one cohesive place and ultimately drives the business objectives. For example, if your top business goal is to double your revenue in the next five years, your business strategy to accomplish that goal might be to develop one to two new products annually. In order to do that, you probably need to retain, attract, and motivate some top-notch, innovative engineers; that’s your talent strategy. Your compensation strategy will help you get there by providing competitive base compensation, a well-rounded and attractive mix of pay overall, incentives for innovation, and benefits and perks that convey the culture of your organization. Put in perspective, it makes sense that organizations care so much about their competitive positions and the comp decisions that power them.
Competitive Jobs

Competitive jobs are those that can be hard to fill because they’re in higher demand. Nearly a quarter (23 percent) of companies said that over half their jobs are competitive. Tech organizations are even more likely to have competitive jobs (41 percent), followed by healthcare (26 percent), with nonprofits bringing up the rear (14 percent).

But how do organizations take the nature of competitive jobs into account when planning their compensation strategy? You guessed it – show them the money. Over half of all organizations said that they do pay more for their competitive jobs. This is very true for top-performing companies who are more likely to pay more for their competitive jobs than typical companies (56 percent vs. 50 percent of typical companies). For tech companies, higher pay for competitive jobs becomes much more prevalent (63 percent).

Which Industries Compensate More for Competitive Jobs?

We now know that competitive jobs are common. We also know that organizations are paying more for their competitive jobs. But, how exactly are they paying them? We asked organizations to identify how they compensate more for competitive jobs. The most common answers were to offer a market premium in base pay (50 percent of organizations) and target a higher market percentile (49 percent of organizations).
Top-performing companies are 10 percent more likely to target a higher market percentile (57 percent vs. 47 percent of typical companies). On the other hand, they are 6 percent less likely to offer intangible benefits or perks to compensate for competitive jobs (16 percent vs. 22 percent of typical companies). The takeaway? Give them cash, and make it market competitive.
MILLENNIAL MANIA

In 2016 we started welcoming early Generation Z employees to the workforce. As millennials age into management roles, organizations are still struggling with whether to adjust compensation strategies for millennials. A quarter of all organizations are planning to change their compensation strategies to accommodate millennials. This practice is even more common among top-performing companies, 33 percent of whom say they plan to adjust their compensation strategies to accommodate millennials (vs. 23 percent of typical companies). You have to wonder if top-performing companies have found the secret sauce to millennial motivation.
Bridging the Skills Gap: Which Jobs are Tough-to-fill?

Earlier in 2016, PayScale had the opportunity to ask managers which skills they believed were most lacking among incoming employees. In the past, companies struggled to find applicants with STEM skills, those involving science, technology, engineering, or math. This year, however, managers were more likely to note that soft skills were most lacking in their new hires – skills such as communication, attention to detail, and critical thinking.

Overall, there was a slight drop in the number of organizations reporting that they have a skills gap this year (down to 33 percent from 35 percent in last year’s report). A skills gap exists when companies have positions open for six months or longer. The skills gap is even lower among top-performing companies (28 percent vs. 34 percent of typical companies).

For those positions that did remain unfilled, most organizations cited a lack of qualified applicants (67 percent) as the reason. Another 20 percent of organizations attributed the gap to the inability to offer a competitive salary, and 5 percent identified a lack of company culture match as the reason. The larger the organization, the more important competitive salaries became.

Reason Tough-to-Fill Jobs Remain Unfilled by Organization Size
Wondering which jobs are most likely to be tough-to-fill? It turns out that companies are more likely to struggle to fill leadership and technical roles. This is interesting because leadership and tech use such different skill sets: tech is all about hard skills, while leadership roles often require strong emotional intelligence and people skills.

**Tough to Fill Roles**

<table>
<thead>
<tr>
<th>ROLES</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>IT</td>
<td>26%</td>
</tr>
<tr>
<td>Management</td>
<td>24%</td>
</tr>
<tr>
<td>Engineering</td>
<td>22%</td>
</tr>
<tr>
<td>Sales</td>
<td>19%</td>
</tr>
<tr>
<td>Executive Level</td>
<td>14%</td>
</tr>
<tr>
<td>Customer Service</td>
<td>10%</td>
</tr>
<tr>
<td>Marketing</td>
<td>9%</td>
</tr>
<tr>
<td>Finance</td>
<td>8%</td>
</tr>
</tbody>
</table>

Perhaps it isn’t surprising that when it comes to nonprofits, a lack of competitive salary factors highly into their ability to fill positions that have been open for six months or more: 29 percent of nonprofits identified the inability to offer a competitive salary as the reason they couldn’t fill open positions, vs. 20 percent of healthcare companies, 20 percent of manufacturing companies, and just 14 percent of tech companies. Nonprofits may have an advantage, however: a recent PayScale study found that a greater sense of making the world a better place can correlate with employees’ lower intent to leave their current organization.

Ultimately, if you want to bridge the skills gap in your organization, you’ll want to account for hot and tough-to-fill jobs when defining your compensation strategy.

**Retention, Recruitment, and Additional Comp Strategy Drivers**

Competitive and tough-to-fill jobs aren’t the only drivers of compensation strategy in organizations. We asked organizations to share their top three reasons for adjusting their compensation
strategy. Retention (69 percent) and recruitment (61 percent) came up at the top of the list. Not surprisingly, organizations rely on their compensation strategies to attract the best people, and hold on to them. Coming in third, slightly more than half (51 percent) of the organizations identified higher pay for hot skills as a main reason to adjust their compensation strategy.

**Top Reasons Organizations Adjust Comp Strategy**

<table>
<thead>
<tr>
<th>TOP REASONS</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retention Efforts</td>
<td>69%</td>
</tr>
<tr>
<td>Recruitment Efforts</td>
<td>61%</td>
</tr>
<tr>
<td>Pay for Hot Skills</td>
<td>51%</td>
</tr>
<tr>
<td>FLSA</td>
<td>23%</td>
</tr>
<tr>
<td>Minimum Wage</td>
<td>19%</td>
</tr>
<tr>
<td>Gender Pay Equity Audit</td>
<td>8%</td>
</tr>
<tr>
<td>CEO-to-worker Pay Ratio</td>
<td>7%</td>
</tr>
<tr>
<td>Contractor Rules</td>
<td>6%</td>
</tr>
<tr>
<td>Ethnic/Racial Pay Equity Audit</td>
<td>3%</td>
</tr>
<tr>
<td>Pay for Other Protected Classes</td>
<td>3%</td>
</tr>
</tbody>
</table>

Given the number of compliance changes in 2016, it comes as no surprise that two major compliance issues arose as pay strategy drivers: the FLSA ruling (23 percent) and minimum wage hikes (19 percent). While the top three responses were the same across organizational sizes, there were some differences in the degree. For example, 32 percent of large organizations said that FLSA was one of the main reasons to adjust comp strategy (vs. 27 percent for enterprise, 24 percent of mid, and just 17 percent of small organizations).

As of this writing, changes to the FLSA remain in flux, but an [earlier PayScale study](https://www.payscale.com) showed that organizations may have adjusted pay in anticipation of the FLSA changes anyway. It appears that during this period of uncertainty, organizations are letting the market drive their choices rather than waiting to hear the final verdict on compliance.
Comparing to Market Data

More and more, organizations are comparing their pay to the market. In fact, more than half of the organizations surveyed (53 percent) have completed a full market study of their compensation in the past year; a quarter did so in the past six months (25 percent). Top-performing companies are more likely to have done a full market study within the past 12 months (62 percent vs. 52 percent of typical companies).

It’s becoming less common for companies to forego market studies. What was once thought of as a tactical exercise is becoming a centerpiece of business. Top-performing companies are less likely to have never done a full market study (17 percent vs. 25 percent of typical companies). So then the question becomes: which data source or sources should organizations use to obtain their market data?

Compensation Data Sources

Most companies use more than one data source to cover the compensation needs of their organization; 71 percent report using two to four sources of market data, 11 percent use five or more sources, 13 percent use just one source, and 5 percent of organizations don’t use market data. And, the larger the organization, the more likely it will use two or more sources of market data: 78 percent of small, 84 percent of mid, 88 percent of large, and 91 percent of enterprise organizations.

With so many options for data sources out there, from government data to industry surveys, from employee-submitted data to traditional third-party studies, which sources do organizations prefer? It turns out, quality outranks methodology. A majority of companies (57%) either love employee-submitted data or don’t care where the data comes from as long as it’s accurate and fresh.
For those who participate in industry and third-party studies, a common practice is to fill out the surveys themselves so that they can receive the report once compiled, either for free or at a lower cost. But the best things in life aren’t free; it turns out that time spent filling out those surveys adds up. A third of companies (34 percent) surveyed spend more than 10 hours filling out compensation surveys annually. A full 40 percent of enterprise companies report spending over one work week (40+ hours) filling out comp surveys.

**More Frequent Market Data Requests**

Not all jobs, functions, or organizations can wait a full year between market studies. Some jobs move fairly dramatically in the market, going from not to hot in the blink of an eye. In 2016, we saw specific skillsets increase the value of a job by as much as 29 percent! As such, savvy organizations have started tracking the data for their critical roles on a more frequent basis.

To date, 47 percent of organizations reference market data for individual jobs more frequently than annually. In fact, 13 percent do so at least weekly. That number rises to 39 percent for enterprise organizations.

Top-performing companies are more likely to reference market data for individual job titles at least monthly (34 percent vs. 29 percent of typical companies).
Retention Woes

Retention remains a top concern for organizations. This year, 56 percent of organizations agreed or strongly agreed that employee retention is a major concern for their company. When we started recording retention concerns, we were in the height of the recession. Because employees were struggling to find and keep jobs, there wasn’t as much job mobility as we see now. As the economy started to rebound, retention concerns grew. We’ll keep our eyes on the trend over the next few years as the changing presidential administration impacts the U.S. economy.

Companies Who Consider Retention a Major Concern

![Pie charts showing the percentage of companies considering retention a major concern from 2009 to 2017.](image)

If organizations are so concerned about retention, what are they doing about it? The top two things employers are likely to do to retain top talent are to offer learning and development opportunities (58 percent) or a merit-based pay plan (57 percent). While the data is fairly similar to last year, it seems there’s no such thing as a free lunch—there is a notable decline in the use of perks in 2017 (23 percent vs. 28 percent in 2016).
In this era of increased job market mobility, it has become common practice for employees to obtain an offer at another organization in order to negotiate higher pay in their current job. If someone is thinking of leaving, do organizations make a counteroffer? While 35 percent said no, they wouldn’t give a counteroffer, most organizations (53 percent) say they would counter, but only for high-performing employees.

But why do employees start looking in the first place? The top three reasons for attrition were personal reasons (62 percent), professional advancement (60 percent) and compensation (57 percent).

Needless to say, professional advancement and higher compensation often go hand-in-hand. Citing “professional advancement” as the number one cause of retention may be less about employees devaluing comp as much as changing how they think about it. As we will see in the Corporate Chasm section, comp is never “just” comp. It’s about what that compensation means and how an individual feels appreciated by their organization. There is a cultural component to professional advancement – titles and promotions can have a big impact on peer relationships.

The emphasis on development should influence how organizations structure comp. If employees are as concerned about advancement as compensation, it may help to get a compensation structure in place that will create easy paths for development, while still remaining scalable to the business. It’s always a tightrope between keeping high-performers and promoting overall organization health. A crystal-clear comp strategy can help guide the way.
Compensation Structure: Turning Market Data Into Guidelines for Pay

Compensation structures provide guidelines for how to interpret market data and apply those learnings across the organization. Pay structures are the backbone of the compensation strategy: they provide the tactical underpinnings that make a comp strategy “real.”

A majority of organizations have some kind of compensation structure in place. In fact, only 22 percent of organizations surveyed have no compensation structure at all. There is a great variety in the types of pay structures; however, pay guidelines vary from a loose-knit grouping of ranges to more formal grade structures.

Types of Compensation Structure

- **Pay Ranges for Each Position** (32%)
- **Pay Ranges for Groups of Jobs (grades)** (22%)
- **A Mix of Grades and Ranges-by-position** (15%)
- **Broadbands** (3%)
- **We Don’t Have a Structure** (22%)

Looking more closely by organization type, a formal grade structure becomes more typical. Public companies are most likely to use pay grades (36 percent), while private companies are least likely (18 percent). When you add in the mix of grades and ranges by position for hot jobs, those numbers jump to 50 percent for public companies vs. 33 percent for private companies. For those private companies looking to make the IPO jump, it’s time to get your pay grades in order.
The bigger the company, the more likely they are to have some kind of base pay plan structure. Only 7 percent of enterprise organizations report having no compensation structure vs. 12 percent in large, 20 percent in mid, and 28 percent in small organizations.

A remnant of early compensation structures, the broadband is a dying breed. That said, the bigger the organization, the more likely they are to hold on to broadbands: 6 percent of enterprise vs. 5 percent of large, 3 percent of mid, and only 2 percent of small organizations. For large and enterprise companies wondering how to be more nimble like their small and mid-size counterparts, the message is simple: ditch the broadbands.

**Why a Mix of Grades and Ranges?**

This year, for the first time, we asked companies if they use a mix of pay grades and job-based ranges. Just over 15 percent of all respondents responded in the affirmative. While many use the system because it’s something they inherited or were required to do (e.g., unions) some clearly made an intentional choice to use a mix of grades and job-based ranges. Here are a few of the reasons we came across:

- To achieve better performance in business.
- Due to the competitiveness of some positions in the industry.
- To facilitate consistency and flexibility across a variety of roles in a large organization.
- To allow for different roles that require different approaches.
- To better manage complex differentials and to provide the flexibility to increase retention of valuable employees.

The main themes across the board were flexibility, market competitiveness, and performance – both individual and organizational.

**Pay by Geography**

Often as companies expand across multiple geographies, they don’t know how to appropriately differentiate pay for each separate geographical market in which they operate. Do you have to? How does it help? Should you do it for all segments in your workforce?
In this year’s survey, we explored whether or not organizations take geography into account. Fifty-five percent of all companies have different ranges for their different geographic locations. Those numbers go up for top-performing companies (61 percent), tech companies (74 percent), and enterprise organizations (75 percent).

The benefit to dialing pay in to your various geographies is that it helps ensure you’re paying competitively to the local market while maintaining internal equity. Pay can differ by as much as 40 to 50 percent between some locations, so if you don’t differentiate pay by geography, you run the risk of significantly over- or under-paying.

Finally, when it comes to developing a pay structure, one key consideration is to consider how frequently to update it. It used to be sufficient to update your grade structure every few years or so. For companies thinking they can wait two or three years to adjust their grade structure, think again. More than 28 percent of all companies surveyed have adjusted their grades or ranges within the past six months. Top performers are even more likely to have last adjusted their pay grades/ranges in the last year (68 percent vs. 62 percent of typical companies). That means a full-scale strategic shift of all pay guidelines is taking place much more frequently than previously thought.

**Mergers and Acquisitions**

This year, for the first time, we explored the prevalence of mergers and acquisitions (M&A) throughout the year. A total of 14 percent of respondents said they were involved in M&A activity. Organizational size played a huge role in whether M&A activity occurred in 2016, with 42 percent of enterprise organizations responding in the affirmative. Just 5 percent of small organizations were involved in M&A in 2016. Industry also played a factor in whether organizations were likely to be involved in M&As, topped by tech (21 percent) and trailed by education (5 percent).

Of those organizations that engaged in M&A activity, most acquired another organization (70 percent), which in most cases resulted in an increase in total headcount size (73 percent). Rarely, some organizations did see a flat rate (19 percent) or even a decrease (9 percent) in headcount.
It’s one of the most popular pay questions after a merger or acquisition: what to do with the existing compensation plans. Most often (44 percent), organizations reported that the other organization adopted their comp plan. Some opted to continue with separate comp plans (20 percent), with a smattering of orgs deciding to merge comp plans (10 percent).

**How Organizations Handle Separate Comp Plans During a Merger and/or Acquisition**

![Pie chart showing the distribution of how organizations handle separate comp plans.](chart)

- **We Joined Comp Plans:** 44%
- **They Adopted Ours:** 20%
- **We Adopted Theirs:** 14%
- **We Operate Separate Comp Plans:** 10%
- **We Don’t Have a Comp Plan:** 8%
- **Other:** 3%

Choices about how to handle comp during a merger or acquisition should be consistent with the big picture strategy. Deciding to use one comp plan over the other makes sense if one entity has their ducks in a row and the other doesn’t. The other group may feel slighted, depending on how they are impacted, but can work well if the rationale for the decision is communicated clearly.

Another option is to keep separate plans. Maintaining separate plans can be alluring as it is the path of least resistance, but it may leave room for inconsistencies and inequities between the two groups. Separate plans may be ok if the new entities won’t interact much and are in different locations.

Merging comp plans at the point of M&A sets the tone that both companies have merit. It will take the longest to coordinate and requires strong decision-makers who know each comp plan inside and out but can ultimately work best if your intention is a true joining of the companies as well as the comp plans.
Future Outlook

With a new presidential administration freshly underway, the future of business in 2017 remains uncertain. With issues like The Affordable Care Act, the Fair Labor Standards Act (FLSA), and federal minimum wage being re-evaluated, the ripple effects on business owners will be potentially dramatic and far-reaching. As such, it is not surprising that more organizations are taking a wait-and-see approach to the coming year.

This year, 68 percent of organizations said that they expect their financial performance will improve in 2017, down slightly from last year when 71 percent of organizations predicted improvement. This downtick held strong for top-performing companies, with 73 percent expecting improvement to their financial performance as opposed to 78 percent last year.

Even in this time of transition, it’s heartening to see businesses still honoring the link between compensation and culture. The majority of organizations (84 percent) still plan to give base pay increases in 2017. Top-performing companies are more likely to give base pay increases (89 percent vs. 83 percent of typical companies). Large organizations are most likely to give base pay increases in 2017 (91 percent) vs. small organizations (81 percent).

Lastly, while 32 percent of organizations still expect their average increase to be 3 percent this year, we are seeing some much-needed innovation to the old 3 percent approach: 9 percent of organizations expect that their average raise will top 5 percent in 2017, up to 11 percent for top-performing companies.
A rich compensation mix encompasses much more than just base pay alone. There are bonuses, incentives, benefits, and much more. Together, these pay elements create the total rewards package for employees.

Variable pay can also be a powerful manifestation of culture. Why not offer spot bonuses for individuals who show strong examples of the company’s core values? If an organization values collaboration, why not give a bonus to the individual who stayed late helping a co-worker finish a project? If an organization values boldness and risk-taking, you could turn some heads by rewarding a failed project, simply because an individual was bold enough to try something new.

The prevalence and variety of variable pay has increased over time, and this year’s data shows that variable pay continues to be a prominent player in the modern compensation landscape. Approximately 74 percent of all organizations surveyed said that they offer some type of variable pay. That number is even higher among top-performing companies – who are more likely to
incorporate variable pay in their compensation strategies (82 percent vs. 73 percent of typical companies).

The larger the company, the more likely they are to provide variable pay: In fact, 85 percent of enterprise companies offer variable pay, versus just 69 percent of small companies.

Variable pay is not only becoming more common but more frequent. While it’s still most common to do bonuses or incentives on an annual basis (56 percent), that number has decreased significantly since last year’s survey (67 percent). Companies are more likely than last year to do bonuses or incentives on a quarterly (16 percent) or monthly (10 percent) basis.

### Frequency of Bonuses or Incentives 2017 vs. 2016

<table>
<thead>
<tr>
<th>FREQUENCY OF BONUSES</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>N/A</td>
<td>1%</td>
<td>67%</td>
</tr>
<tr>
<td>Weekly</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td>Monthly</td>
<td>10%</td>
<td>6%</td>
</tr>
<tr>
<td>Quarterly</td>
<td>13%</td>
<td>16%</td>
</tr>
<tr>
<td>Semi-annually</td>
<td>16%</td>
<td>16%</td>
</tr>
<tr>
<td>Annually</td>
<td>6%</td>
<td>7%</td>
</tr>
<tr>
<td>Project Based</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Ad-Hoc</td>
<td>9%</td>
<td>N/A</td>
</tr>
</tbody>
</table>

### Types of Bonus or Variable Pay

Organizations use a whole host of variable pay options to reward employees, some of which are more typical than others. While individual incentives remain the most common (64 percent), a quarter of organizations are using team incentives. Spot or discretionary bonuses remain popular (46 percent) as well.

Top-performing companies are more likely to give bonuses overall, in particular individual incentive bonuses (71 percent vs. 62 percent of typical companies), team incentive bonuses (32 percent vs. 24 percent of typical companies) and market premium bonuses (6 percent vs. 4 percent of typical companies).
The pervasiveness of bonuses tends to increase with company size. Small organizations are less likely to give a retention (13 percent) or hiring (15 percent) bonus, while it is common practice for just about half of enterprise organizations to give retention (49 percent) or hiring (53 percent) bonuses.

**Bonus Type by Organization Size**

While the same percentage of companies gave bonuses as last year (74 percent), those that did give bonuses were more likely to use a wider variety of bonuses. Companies are making use of the full variable pay mix, incorporating more retention bonuses, hiring bonuses, and spot bonuses, to name a few.
Moral of the story? It's time to get familiar with all the types of variable pay that fall under the umbrella.
Benefits and Perks

When it comes to benefits, there is a smorgasbord for employers to choose from. Most organizations offer employer-paid medical, dental, vision, etc (76 percent). The least common perk offered was the paid sabbatical (4 percent). Some other typical benefits showed up as well: 50 percent of organizations offer accrued PTO, and 62 percent offer 403b or 401k retirement plans.

Variety of Benefits Offered

There were a few notable differences in benefits practices by org size and industry: Smaller organizations are less likely than large organizations to offer 403b or 401k (55 percent of small vs. 73 percent of large organizations) and less likely than enterprise organizations to offer pensions (14 percent of small, vs. 35 percent of enterprise organizations). Tech is the most likely of all the industries to offer equity as a benefit (31 percent) and also to offer unlimited PTO (17 percent).

Looking closer at 401k or 403b, a majority of organizations (58 percent) offer a capped matching contribution. Few (2 percent) do an uncapped matching contribution. Interestingly, 22 percent of organizations provide a percent contribution regardless of the employee contribution. Some organizations choose to offer a contribution regardless of employee contribution to level out income differences from the top to the bottom of the organization.
Who Gets Variable Pay and Why?

This year, more organizations report giving executives a bonus (75 percent) or incentive (29 percent). Sales is much more likely to receive a commission (49 percent). Non-exempt individual contributors are least likely to receive a bonus, incentive or commission (30 percent).

Mix of Variable Pay by Level

When organizations begin to develop their variable pay plans, they often assume they’ll be excluding non-exempt employees. But take note: plenty of organizations are giving bonuses (47 percent) or incentives (18 percent) to their non-exempt employees. Top-performing companies are more likely to give bonuses at the non-exempt individual contributor level (50 percent vs. 46 percent of typical companies). In other words, the practice of giving non-exempt employees variable pay is more prevalent than one might think.

We also sought to determine, for each level, what is the basis for allocating variable pay? Or, in other words, what types of goals are linked to variable pay payouts – goals based on company performance, team performance, or individual performance? Most commonly, it is a mix of company performance and individual performance.
More companies report using company performance as part of the executive variable pay mix (77 percent). Organizations are also more likely to link executive pay to company performance than they are for directors and managers (68 percent), exempt individual contributors (51 percent), or non-exempt individual contributors (37 percent).

### Variable Pay Influencers by Level

<table>
<thead>
<tr>
<th>Level</th>
<th>Company Performance</th>
<th>Team Performance</th>
<th>Individual Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executives</td>
<td>77%</td>
<td>41%</td>
<td>26%</td>
</tr>
<tr>
<td>Directors &amp; Managers</td>
<td>68%</td>
<td>39%</td>
<td>21%</td>
</tr>
<tr>
<td>Exempt Individual Contributors</td>
<td>52%</td>
<td>51%</td>
<td>16%</td>
</tr>
<tr>
<td>Non-exempt Individual Contributors</td>
<td>53%</td>
<td>42%</td>
<td>36%</td>
</tr>
<tr>
<td>Sales</td>
<td>61%</td>
<td>23%</td>
<td>37%</td>
</tr>
</tbody>
</table>

Fewer companies report linking non-exempt variable pay with team performance (16 percent) than individual (42 percent) or company performance (37 percent). More organizations connect higher organizational levels with team performance. For example, 39 percent of directors and managers have a bonus based on team performance.

Ultimately, you’ll want to consider the right types of variable pay for the right levels in your organization. Individuals, especially non-exempt individual contributors, often feel that they don’t have an impact on team or organizational goals. Variable pay that is driven by goals in those areas can be a way to connect the dots and help individuals feel more empowered, but only if they actually can affect the success of those goals.
Performance and Pay

There are a few schools of thought about how to link performance with pay. There are some more typical ways to connect performance and pay, such as with a merit increases, and some less typical ones, such as equity. The options range from monetary to non-monetary.

How Organizations Reward/Recognize High-Performing Employees

Responses within the “other” category ranged from verbal expressions of gratitude, to vacations and trips, to preference for plumb project assignments. Learning and development also featured prominently in the “other” category.

Top-performing companies are more likely to reward high-performing employees with monetary rewards. They exceeded typical companies in all monetary rewards, especially goal-based bonuses (35 percent vs. 28 percent) and bigger base pay increases (58 percent vs. 54 percent).
Are You Supposed to Budget for Variable Pay?

To budget or not to budget for variable pay, that is the question. Having a budget for variable shows a commitment to paying out variable pay. Having no budget for variable pay doesn’t necessarily preclude paying out variable pay contingent on performance, but it does send a different message depending how transparent you are about your budget.

Top-performing companies are more likely to allocate some type of budget to variable pay vs. leaving it unbudgeted. Only 19 percent of top-performing companies have no budget for variable pay vs. 25 percent of typical companies.

Budget for Incentive or Bonus Pay in 2016

Whether and how much you budget for variable pay, then, will depend on a number of factors. How literal are you with your budget? Who gets to see the budget? If things aren’t in the budget, do you tend to spend money on them anyway? Do you have an established variable pay plan already? All of these questions will help you decide if you should budget your variable pay up front.
CORPORATE CHASM

One of the most significant findings in last year’s CBPR was the gulf between how employers think employees feel about key workplace issues, and how employees actually feel. We call this “The Corporate Chasm,” and have built on this narrative with updated findings in this year’s report. Because PayScale crowdsources data from both employees and employers, we are able to provide a uniquely holistic view of the most meaningful workplace dynamics.

From this comprehensive view, a clear warning emerges for companies: ignore pay at your peril. Indeed, employers’ and employees’ viewpoints reveal a troubling – but telling – disparity on both pay practices and feeling valued in the workplace.

• When it comes to pay, only 20 percent of employees said they were paid fairly, whereas 44 percent of employers said that their employees were fairly paid.

• In a similar vein, employers were significantly more inclined to say their employees were appreciated at work (64 percent), whereas only 45 percent of employees said they felt appreciated at work.

• A question around pay transparency revealed more of the same – 31 percent of employers said their company had a transparent pay policy, whereas only 23 percent of employees agreed.
Differences in Perceptions on Workplace Engagement

<table>
<thead>
<tr>
<th>Employees</th>
<th>Employers</th>
</tr>
</thead>
<tbody>
<tr>
<td>“I feel that I am paid fairly.”</td>
<td>“Employees at my organization feel they are paid fairly.”</td>
</tr>
<tr>
<td>20%</td>
<td>44%</td>
</tr>
<tr>
<td>CHASM 24%</td>
<td></td>
</tr>
<tr>
<td>“I feel appreciated at work.”</td>
<td>“Employees at my organization feel appreciated at work.”</td>
</tr>
<tr>
<td>45%</td>
<td>64%</td>
</tr>
<tr>
<td>CHASM 19%</td>
<td></td>
</tr>
<tr>
<td>“There is frequent, two-way communication between managers and myself.”</td>
<td>“There is frequent, two-way communication between managers and employees.”</td>
</tr>
<tr>
<td>55%</td>
<td>63%</td>
</tr>
<tr>
<td>CHASM 8%</td>
<td></td>
</tr>
<tr>
<td>“I have a great relationship with my direct manager.”</td>
<td>“Employees at my organization have a great relationship with their direct managers.”</td>
</tr>
<tr>
<td>67%</td>
<td>57%</td>
</tr>
<tr>
<td>CHASM 10%</td>
<td></td>
</tr>
<tr>
<td>“The way pay is determined at my company is a transparent process.”</td>
<td>“My organization has a transparent pay process.”</td>
</tr>
<tr>
<td>23%</td>
<td>31%</td>
</tr>
<tr>
<td>CHASM 8%</td>
<td></td>
</tr>
</tbody>
</table>

0% 10% 20% 30% 40% 50% 60% 70%
RESPONDENTS WHO AGREE OR STRONGLY AGREE

What story is this data telling? Employers consistently have rosier views of employee engagement levels at their companies. Employees have more dissatisfied views than their employers assume. What is clear now is that perceptions on key employee issues between employees and employers distinctly diverge.

Employers should not be surprised that feeling undervalued in terms of compensation is often accompanied by feeling undervalued, period. Pay is the linchpin; when the dollars aren’t right, all other gestures of appreciation can often ring hollow. A lack of transparency adds insult to inequity: the only thing worse than feeling underpaid is having no idea why. Interestingly, the converse is also true. A separate PayScale study of 71,000 employees found that 82 percent of employees felt satisfied at their company even if they were underpaid, as long as they knew the reason why.
The same PayScale study of 71,000 employees revealed that nearly two-thirds of employees who believed they were underpaid were actually paid at market. In fact, 35 percent of employees who believed they were underpaid were actually paid above market. It’s not necessarily about paying more, but about being more transparent about how employees are paid in the first place. Lack of transparency can allow unfounded resentment to fester, and this can have far-reaching consequences: 60 percent of employees who said they were underpaid said they intended to look for a new job.

The moral of the story is that employee engagement is a sophisticated tapestry: pay, communication, and feeling valued are intrinsically linked. To ignore any one of these areas is to negatively impact all.

This year, half of all organizations agreed that compensation drives employee engagement. Unfortunately, far fewer have acted on this insight. Only a little over a quarter of organizations have changed their pay strategy as a result of employee engagement survey feedback (26 percent).

50 percent of orgs agree comp drives engagement, but only 26 percent have changed pay as result of employee engagement survey feedback.
On that note, when it comes to the corporate chasm, much of the madness may lie in the mechanisms. Mechanisms for measuring employee feedback haven’t changed much since the late 1990s, with most companies still relying on the dusty old annual employee engagement survey to gauge org health. Our data found that a third of organizations still measure employee engagement only once a year (32 percent). A mere 19 percent of companies measured employee engagement on an ongoing or real-time basis, and nearly a quarter of organizations never measure employee engagement at all (24 percent). With over half of companies measuring engagement just once a year or less, no wonder such gaps in perspectives have emerged. An employee’s perspective on their job may change several times a day, and companies are still taking the measure once a year or less.

Performance reviews — otherwise known as the forcing function for employers who otherwise never give feedback to give feedback — saw a similar fate. In the 2016 CBPR, we learned that 44 percent of organizations predicted the biggest change in HR/comp for 2016 would be a move from annual performance reviews to a more frequent feedback model. This trend failed to materialize. The number of organizations reporting that they do annual performance reviews in 2017 was pretty flat compared to 2016 (64 percent vs. 65 percent, respectively). No wonder the communication between employers and employees is so broken.

**Frequency of Performance Review**

- **Annually**: 64%
- **Quarterly**: 10%
- **We Use a Real-time, Ongoing Feedback Process**: 10%
- **I Don’t Know**: 7%
- **We Do Not Conduct Performance Reviews**: 8%
- **Other**: 1%
Level of Transparency

Nearly a third (31 percent) of organizations agree that they have a transparent pay process. Where it gets interesting is how differently each company defines transparency. Transparency isn’t all or nothing. In fact, there’s a whole range of choices that organizations make about how much information to share with employees. PayScale has developed “The Pay Transparency Spectrum” to help organizations identify and benchmark their level of transparency against other organizations. Level one is the least transparent; companies tell employees what and when they’re paid. Level five is the most transparent – some call this radical transparency – where either everyone’s pay, or the formula for all pay decisions, is shared openly with all employees, up to the executive level.

Transparency Spectrum

<table>
<thead>
<tr>
<th>What</th>
<th>How</th>
<th>Where</th>
<th>Why</th>
<th>Whoa!</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Paycheck</td>
<td>“Here’s what you get paid”</td>
<td>“Here’s how we use market data to determine pay”</td>
<td>“Here’s why we pay like we do”</td>
<td>“Here’s everything you want to know about everyone’s pay”</td>
</tr>
<tr>
<td>5. Open Salary Published ranges and salaries</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Nearly half of organizations described their level of transparency as a level one (49 percent). At the other end, 6 percent of organizations believe they’re at level five transparency. The rest (43 percent) fell somewhere in the middle.
Another insight that emerged is that most organizations aspire to be more transparent than they are. While 31 percent of organizations overall currently identify on the mid-to-high end of the transparency spectrum (level three or greater), nearly half of all organizations desire to reach that level of transparency in 2017. While 49 percent of organizations currently identify at level one transparency, just 27 percent target being at level one in 2017.

One of the most tangible ways organizations exhibit transparency is providing employees with a total compensation statement. A total compensation statement outlines all of an employee’s rewards and often applies a monetary value to non-cash items (paid time off, health insurance, etc.). While 40 percent of all organizations provide total compensation statements to employees, the practice is much more common among top-performing companies (53 percent vs. 38 percent of typical companies).
The larger the organization, the more likely they are to provide total compensation statements (51 percent of enterprise, vs. 38 percent of small organizations.) It’s encouraging to see so many companies engaging in this modern pay practice. A total compensation statement empowers employees with a more sophisticated understanding of their compensation, and enables them to think beyond mere dollars and understand the total value of their deal.

**Companies vs. Managers: The Buck Stops With You, No, With You**

In the corporate chasm question portion of the survey, there was one exception where employees felt more positively than employers anticipated they would. Employees were actually more likely to say that they have a great relationship with their direct manager (67 percent) while employers were less likely to believe relationships between employees and managers were solid (57 percent). Also, while there was still a gap in perception on whether there was frequent, two-way communication between employees and managers (63 percent of employers agreed vs. 55 percent of employees), in both cases, more than half thought that there was frequent communication, so relatively speaking, this number is also more positive.
But what does it all mean? In summation, an employee was less likely to say they were paid fairly, less likely to say their organization was transparent, less likely to say that they were appreciated at work, but then more likely to say they have a great relationship with their direct manager and have good, direct communication. What gives? Wouldn’t resentment about low pay, lack of transparency, and feeling valued land squarely on the manager’s shoulders? Not necessarily.

On the one hand, great managers can indeed be a port in the storm for employees. At the best of times, this can be a boon to the organization. A phenomenal manager who leads, inspires, instructs, and supports can counterbalance even the direst of organizational climates. These managers are diamonds in the rough and should be cherished by the companies lucky enough to have them.

But there is also another possible interpretation to this dichotomy that is less positive. Perhaps employees acquit managers from poor workplace circumstances because managers first acquit themselves. Some managers say things like, “I would absolutely give you a raise if it were up to me, but the company’s rigid stack rank policy makes that impossible. Sorry, I wish we as a company weren’t so out of touch,” or “I would gladly tell you the rationale behind this pay decision, but HR wouldn’t tell me.”

Although the manager keeps the relationship with their direct report secure, villainizing HR or the organization in the process is not likely to increase the employee’s overall engagement. Another key problem with this approach is that it makes the manager seem powerless, and thus decreases their employees’ confidence in their ability to manage. After all, a “great relationship” with a manager could just as easily mean the employee sees their manager as a friend or ally, but not necessarily an authority figure.
Pay Conversations: How’s the View From Under the Bus?

While we don’t know for sure which of these two scenarios is the case, whether managers are or aren’t throwing their orgs under the bus in the pay process, companies certainly lack confidence in their managers’ abilities to talk pay.

In fact, less than one in five organizations are very confident in their managers’ abilities to have tough conversations about compensation with employees (19 percent). This number has increased just slightly since last year, where just 17 percent of organizations were very confident. Ironically though, only 30 percent of organizations even offer training to teach managers how to talk with employees about compensation. In essence, companies are critical of managers’ inability to handle a pay conversation with employees, but only a third of companies are offering training on how to do so. They are sending managers into battle with no armor; invoking a learn-as-you-go paradigm. Considering how many ways a pay conversation can go wrong, and how irreparable this damage can be to employee engagement, this lack of manager training on pay conversations is a huge blind spot for many organizations. Companies in this day and age offer trainings on everything from bribery to identify theft. While these topics are certainly important, they are edge instances that will not impact everyone in an organization (at least, we certainly hope not.) But absolutely everyone will be impacted by a pay decision at some point, so why not add pay to the training mix as a mandatory topic?

The number of organizations who train managers gets more encouraging as the company size gets larger — 48 percent of enterprise vs. 37 percent of large, 30 percent of mid, and 25 percent of small organizations — but the percentage of companies providing manager training on pay should still be much higher overall.
Even when companies do train managers, the trainings can be described as “Compensation Lite.” Companies train managers on broad concepts like communication styles and educate them on org performance. While this is better than nothing, it still leaves managers vulnerable when the conversation gets more in-depth. Managers need to be trained on the specific mechanics of comp: compa ratios and range penetration, as well as how to have specific difficult pay conversations.

Most Typical Manager Training Topics
Pay as an Ongoing Practice, Not an Event

Top-performing companies view compensation very differently from their counterparts. Compensation isn’t an “exercise” that happens on an annual basis. It is part of the vibrant fabric of the culture, something to be attended to, constantly calibrated, and continuously refined. There is no such thing as a “finished” comp plan, only continuous adjustments to keep pace with ever-changing conditions.

Top-performing companies are strategic in their approach to compensation. They know peanut butter is a sandwich topping, not a salary practice. They are proactive in their compensation practices, always adjusting to the changing needs of the market, their competitors and their employees. Let’s take a look:

What Top-performing Companies Do Differently

• Top-performing companies are more likely to pay differently for competitive jobs (56 percent vs. 50 percent) and more likely to reference data for specific jobs at least annually (75 percent vs. 69 percent).
• Top-performing companies are more likely to have completed a full market study in the past 12 months (62 percent vs. 52 percent).
• Top-performing companies are more likely to have a compensation team (44 percent vs. 30 percent).
Top-Performing Companies Realize That Comp Is Culture

The way top-performing companies approach compensation reveals a deep appreciation for their employees.

Top-performing companies know that how a company communicates, and responds to pay communications, is just as important as how they pay. They are more likely to train managers how to talk pay with employees (37 percent vs. 28 percent of typical companies.) They are more likely to have changed pay due to an employee engagement survey (32 percent vs. 24 percent of typical companies).

They also help connect the dots for their employees when it comes to compensation. They are more likely to provide a total compensation statement to employees (53 percent vs. 38 percent of typical companies.) This is significant; knowing that total compensation plans are one of the most tangible expressions of transparency, this number is a big deal.

When it comes to employee-friendly pay practices, top-performing companies also take the changing workplace into account. One’s generation can have a powerful impact on how they view their compensation. On that note, top-performing companies are more likely to adjust their pay strategy to accommodate millennials (33 percent vs. 23 percent).

When it comes to compensation, the proof is in the pay fairness. Top-performing companies are more likely to say that they pay their employees fairly (52 percent vs. 42 percent of typical companies). We believe ‘em.

In conclusion, while it can be tempting to think that these companies are putting so much more work into their compensation plans that they must not have time to get any work done, remember that these are the companies who experience the most positive business KPIs. They identify as number one in their industry and met or exceeded their revenue goals for the year. Those are universally appealing business metrics any company would love to claim. The message rings true: when you get comp right, everything else falls into place.
Comp Crystal Ball: Biggest Challenges for 2017

Now that we’ve recapped the trends of the past year, we come to the all-important question: what does the future hold? Last year, respondents predicted the biggest challenge would be the death of the annual performance review. This has failed to manifest just yet, but we at PayScale do believe that real-time, ongoing feedback is the way of the future.

For 2017, most of the predicted challenges center around the employee lifecycle: recruitment, engagement, and retention. Demographics are a huge factor: it turns out retaining baby boomers on the cusp of retirement is just as difficult as retaining millennials. These future predictions bring us full circle: respondents agree that compensation and culture are intrinsically linked, and that this is the year when those dots definitively connect.

Biggest Predicted Challenges for 2017

- Finding and growing great talent.
- Employee retention/engagement - large number of retirements anticipated in 2017 as well as continued millennial job-hopping.
- Competition from younger stage tech startups.
- Hiring and retaining the right employees in the face of high growth.
- The fierce talent competition shifting the balance of power to candidates.
- Improving company culture and fighting attrition for newly trained employees.


**Survey Methodology**

The 2017 Compensation Best Practices Survey gathered responses during November and December 2016. There were 7,700 respondents to the 2017 Compensation Best Practices Survey.

**Top-Performing Companies**

Top-Performing Companies are defined as those who are number one in their industry and met or exceeded their revenue goals in 2016. Eighteen percent of respondents were Top-Performing Companies.

**Location**

Respondents spanned the globe, including 5,136 respondents in the United States and 641 respondents in Canada.
There was also representation of both multiple-location and single location organizations.

**Company Size**

This year we defined four organization sizes for comparison as follows: Small (1-99 employees), Mid (100-749 employees), Large (750-4,999 employees), and Enterprise (5,000 or more employees). Although the survey includes many smaller organizations, there were more than 1,500 Large and Enterprise organizations represented.
Industry and Organization Type

The top four industries responding to the survey were Manufacturing, Technology, Healthcare, and Nonprofits. In terms of organization type, most respondents were either a public or private company (77 percent), but there were many responses from schools, hospitals, and governments as well.

Job Level

Most respondents self-identified at the Manager level (37 percent). Twenty-two percent were Directors, 21 percent Individual Contributors, and 20 percent at the Vice president or C-level.

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