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Foreword

By Tim Low, Senior Vice President, PayScale

As PayScale approaches a decade of collecting data from organizations on how they pay and how they manage the business of compensation, we’ve learned some things:

Your Pay Brand Matters

The way you pay, including how much and why, matters to your potential employees and to your current employees. Perceptions around your organization’s commitment to or lack of commitment to fair pay practices are now top of mind for mission-focused Millennials, not to mention the other demographic groups in the workforce from Baby Boomers to Gen Z. No longer can organizations hide their heads in the sand about issues like gender pay equity. Talent is watching and making value judgments on how organizations craft their pay philosophy and practices. If those don’t align with the culture or sit well with employees, they may take their skills elsewhere.

Anxiety Around Wealth Distribution Is High

Unlike the second half of the 20th century, when most Americans shared in rising wages and economic prosperity, in the second decade of the 21st century, we see increasing disparity in wealth distribution. Market dynamics, including government gridlock on some issues, will drive changes to corporate behavior around pay. In January, Larry Fink, CEO of Blackrock, the world’s largest asset management firm with more than $6 trillion under management, sent an open letter to business leaders and corporate board members pointing out that many are not sharing in the enormous return on capital in recent years. He said “we are seeing a paradox of high returns and high anxiety,” pointing out that “many individuals around the world are facing low rates, low wage growth and inadequate retirement systems.” What is notable about this is how clear Fink makes his challenge to corporations to do the right thing. He states “companies must ask themselves: What role do we play in the community? How are we managing our impact on the environment? Are we working to create a diverse workforce? Are we adapting to technological change? Are we providing the retraining and opportunities that our employees and our business will need to adjust to an increasingly automated world? Are we using behavioral finance and other tools to prepare workers for retirement, so that they invest in a way that will help them achieve their goals?”

We believe that organizations that make choices balancing the interests of shareholders and employees, and communicate them clearly, will win the perception game that has put talent in a stronger position than it has been in for quite some time.
Communicating Is How You Win (or Lose)

Communicating clearly about your pay practices has the potential to pay off significantly in better employee engagement and satisfaction, yet most organizations still fail at this part of strategic compensation. The reason for building a smart, modern compensation program enabled by robust, real-time data and tools that map to current business demands is NOT to benchmark job salaries correctly, although that is undoubtedly part of the program. Compensation, done well, is about your organization’s realization that you are playing a talent game and a perception game, and to win you must approach what you pay, how you pay and why you pay as key pillars of your talent strategy.

In 2018, retaining your top talent is just as important as attracting new talent. You need to show your existing and future employees that you care about them, their lives and their quality of life. Acknowledge the value they bring to your organization’s success. This will set you apart as a beacon for the best or, if you don’t do these things, will put you in the penalty box where the market either believes you don’t pay well, don’t pay fairly, or they have to guess because you haven’t made it clear by your actions. That’s the challenge and the opportunity for how you pay in 2018.
1. A Crisis of Confidence

A whopping 85 percent of managers have confidence in their ability to explain the rationale behind pay decisions to employees but only 37 percent of organizations share that confidence in their managers.

2. Retention a Growing Concern But Not Enough to Stray Far from 3%

Even more organizations (59 percent) called out employee retention as a major concern for 2018, compared to 56 percent for 2017. However, while 84 percent of organizations plan to give base pay increases in 2018, the average increase isn’t expected to change much from 2017, with 73 percent of employers estimating an average of 3 percent or less. Of course, employees in competitive jobs or who are outperforming their peers may be commanding much more. The highest base pay increase given to an employee (excluding promotions) was greater than 10 percent for 40 percent of orgs, with 13 percent of orgs giving an increase that was 20 percent or higher.

3. The Ever-Changing Market

More than half of organizations (52 percent) have completed a full market study within the past year and 17 percent price individual jobs in the market at least weekly, up from 13 percent in last year’s survey.

4. Employers Counting on Variable Pay to Hire and Retain

Seventy-one percent of organizations offer some form of variable pay (bonuses, commissions, etc.) Interestingly, the number of organizations offering spot bonuses decreased year-over-year from 46 percent to 39 percent while individual incentive and hiring bonuses increased, 67 percent vs. 64 percent and 34 percent vs. 27 percent, respectively. We also asked about some additional types this year and found that 39 percent offer employee referral bonuses, 30 percent offer organization-wide bonuses and 22 percent offer profit sharing.

5. Pay Equity Top of Mind But Not Top of the To-Do List for 2018

Top-performing organizations are more likely to report that they’re actively addressing workplace inequities than typical organizations around gender (35 percent vs. 26 percent), race/ethnicity (28 percent vs. 23 percent) and other protected classes (27 percent vs. 21 percent). That said, 63 percent of top-performing organizations have no plans to conduct a race or gender pay equity analysis in 2018 (vs. 66 percent of typical).
2017 has been a year of transformation. More and more states are banning the salary history question, pay equity laws are gaining in prevalence and major tax reform bills are throwing payroll into disarray. Additionally, the unemployment rate is at historical lows so employees have many more options when it comes to employment opportunities. In order to attract and retain the best talent, organizations have turned their attention to cultivating a top-notch employee experience, one they can really brag about. The challenge they all face? Employee experience relies heavily on managers to execute: to coach and train employees, to effectively share sensitive information about compensation and performance, and to recognize employees for their contributions. The problem is that organizations don’t always trust their managers to be up to the task. Additionally, they don’t typically provide managers with the training, resources, and opportunities to develop into the kinds of managers who can successfully deliver the employee experience they hope to provide.

But perhaps we’re getting ahead of ourselves. Let’s start with the facts. What happened with compensation in 2017?

What Are You Doing for Pay Increases This Year?

With a low average unemployment rate of 4.1 percent through December of 2017, we are currently in an employee’s job market. Most organizations gave increases to their employees in 2017. In fact, 87 percent of top-performing organizations gave pay increases (vs. 78 percent of typical organizations). With so many ways to provide increases, we delved deeper into the pay increase practices of organizations.
**Merit Increases**

Last year we predicted that the 3 percent raise was on its way out. That doesn’t seem to be the case. At PayScale, we know that the one-size-fits-all approach to allocating increases doesn’t tend to be very motivating to employees, especially to high-performing employees.

In 2017, the most typical organizational budgeted increase was 3 percent (31 percent of orgs) while only 25 percent actually gave out 3 percent raises. However, a number of organizations did aim high: 10 percent of organizations budgeted 4-5 percent increases, and another 9 percent of orgs budgeted over 5 percent for increases. Those who reported giving higher-than-average actual increases were on par with those who budgeted higher increases (29 percent of organizations both budgeted and reported giving average increases above 3 percent).

**Budgeted and Average Increases in 2017**

![Graph showing budgeted and average increases in 2017]

More organizations gave average increases of less than 3 percent than had budgeted to do so in 2017.

The story becomes more interesting when we start looking at the highest increases given to any employee in 2017, not related to a promotion. The range of increases given in an organization speaks to the amount of discretion given to the decision makers.
Just 7 percent of organizations gave 3 percent increases as the highest amount. Twenty percent of organizations gave at least one increase in the 10-14.99 percent range. Another 20 percent gave an increase at or above 15 percent. The larger the organization, the more likely they were to have given at least one large increase: 15 percent of small, 22 percent of mid, 22 percent of large, and 25 percent of enterprise organizations gave an increase at or above 15 percent in 2017.
Reasons for Raises

What were the main reasons for raises in 2017? The top five reasons remain unchanged from last year’s Compensation Best Practices Report: performance, retention, market adjustment, cost-of-living adjustment and internal pay inequities (not compliance-related).

Employers seeking to be employers of choice will do well to link their pay raises to performance and market rates for their jobs. Today’s savvy high-performers don’t only want to see that they are paid well for their efforts. Employee satisfaction is driven by feeling the approach to pay is fair and transparent at the organization.

They are also much more informed about the value of their jobs in the market and they are often approached by recruiters about new job opportunities. The rising number of online sources to which employees can now turn for pay information has made employees confident in approaching their employer to ask for a raise. Basing pay increases on quantifiable reasons isn’t just good for your pay brand; in some states, it’s required by law.

Top Reasons for Raises in 2017

- 78% Performance
- 54% Retention
- 42% Market Adjustment
- 42% Cost-of-Living
- 26% Internal Pay Inequities
- 15% Tenure
- 14% Hot Skills
- 3% Merger or Acquisition
- 9% Compliance
- 3% Merger or Acquisition
Making Good Choices About Compensation

In 2017, we saw organizations get much smarter about compensation. Of those organizations who participated in our survey, 57 percent agree or strongly agree that compensation is becoming more important to their executives. And organizations are turning their concern into action: 46 percent of top-performing organizations have a compensation strategy (vs. 35 percent of typical organizations) and another 35 percent are working on developing one (vs. 37 percent of typical organizations).

What is a compensation strategy? A compensation strategy forms the backbone of your compensation plan. It aligns all your compensation resources to accomplish your business goals. It helps you decide where you want to compete, how competitive you need to be and what you choose to reward. With the backbone in place, organizations can quickly make good choices about compensation. We’ll look at three areas where organizations can make good choices: competitive jobs, tough-to-fill jobs and retention.

Competitive Jobs

For the purposes of our survey, we defined competitive jobs as those that can be hard to fill because they are in high demand. A quarter of top-performing organizations reported that over half of their jobs are competitive jobs (vs. 22 percent of typical organizations). We asked organizations to share their strategies for compensating competitive jobs. Overall, 51 percent of organizations compensate more for competitive jobs. That story gets a bit more complicated when we look more closely at each industry.
Perhaps it’s not surprising that Tech, Real Estate and Manufacturing top the list of industries vying for competitive talent. At the other end of the spectrum are, Nonprofits, Agencies & Consultancies and Government.

We then asked how organizations compensate for competitive jobs. A majority of organizations target a higher market percentile. For example, they would target the 50th percentile for their core jobs, but then the 65th, 75th or even 90th percentile for their competitive roles.

### How Organizations Compensate for Competitive Jobs

- **Target a Higher Market Percentile**: 54%
- **Offer a Market Premium in Base Pay**: 48%
- **Provide Tangible Benefits or Perks**: 30%
- **Offer a Market Premium Bonus**: 20%
- **Provide Intangible Benefits or Perks**: 20%
Larger organizations are much more likely to target higher percentiles than small organizations (61 percent of enterprise, 64 percent of large, 60 percent of mid, and just 44 percent of small organizations).

**Tough-to-Fill Jobs**

By contrast, tough-to-fill jobs are those that are open for six months or longer, and often are related to a skills gap or other shortage of labor. Thirty-five percent of organizations have had open positions for six months or longer. That number rises to 52 percent of enterprise organizations (vs. 48 percent of large, 37 percent of mid, and 25 percent of small orgs). It makes sense that fewer small organizations have positions open for that long, as each person and each position matters that much more in a small organization.

**Reason Tough-to-Fill Jobs Remain Unfilled by Organization Size**

![Bar chart showing the percentage of respondents in different organization sizes (Small, Mid, Large, Enterprise) indicating the reasons for tough-to-fill jobs remaining unfilled.](chart)

All organization sizes point to a scarcity of talent as the number one reason their positions remain unfilled.

For the past few years, tech roles have topped the list of tough-to-fill roles (26 percent). This year’s data show something we’ve been hearing from our manufacturing and construction customers for a while: skilled trades are a close second in tough-to-fill roles (23 percent).
A staggering 70 percent of respondents from the construction industry cited skilled tradespeople as their toughest-to-fill roles. Half of manufacturing industry respondents also struggle to fill skilled tradespeople roles.

In tough-to-fill roles, once organizations find their talent – following a search lasting six months or more – they must then turn their attention to retaining that talent.

**Retention**

It’s no surprise then that in this tight talent market, the number of organizations who consider retention a major concern has increased. Fifty-nine percent of organizations fear losing their hard-won talent.

**Organizations That Consider Retention a Major Concern**

<table>
<thead>
<tr>
<th>Year</th>
<th>Concerned About Retention</th>
<th>Not Concerned About Retention</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>28%</td>
<td>72%</td>
</tr>
<tr>
<td>2010</td>
<td>20%</td>
<td>80%</td>
</tr>
<tr>
<td>2011</td>
<td>47%</td>
<td>53%</td>
</tr>
<tr>
<td>2012</td>
<td>49%</td>
<td>51%</td>
</tr>
<tr>
<td>2013</td>
<td>59%</td>
<td>41%</td>
</tr>
<tr>
<td>2014</td>
<td>57%</td>
<td>43%</td>
</tr>
<tr>
<td>2015</td>
<td>57%</td>
<td>43%</td>
</tr>
<tr>
<td>2016</td>
<td>57%</td>
<td>43%</td>
</tr>
<tr>
<td>2017</td>
<td>56%</td>
<td>44%</td>
</tr>
<tr>
<td>2018</td>
<td>59%</td>
<td>41%</td>
</tr>
</tbody>
</table>

Retention tops the list of reasons organizations adjust their compensation strategy.
Whether it’s retaining, recruiting, or paying for hot skills, organizations are making the critical strategy choices they need to make to accomplish their objectives. So what choices are they making exactly and how have they evolved over the past few years?

How Organizations Plan to Retain Top Talent

Organizations are more likely to turn to cash and merit-based pay plans than they have in the past. They’re also less likely to use perks than in the past. So they’re using cash, but they’re not doling it out indiscriminately. They’re using a defined merit-based pay plan that connects performance with pay to retain their high-performing people. What’s more, organizations are turning to market data to both ensure that they are paying fairly and competitively and to demonstrate to employees that they are doing so.
Comparing to Market Data

Market data factors heavily into whether organizations compensate more for competitive jobs (54 percent), move their pay ranges (36 percent), or give raises (42 percent). We looked more closely at two key questions that often come up regarding market data: what sources do you use? And how often do you check the market?

Compensation Data Sources

Many organizations admit to seeking free online data (64 percent). The advantage of reviewing the free online sources is that you’re able to see the sources at which your employees may be looking. However, because they’re not packaged for business use, they don’t always have the same rigor of validation applied. Four other types of compensation data sources featured prominently for organizations:

- Traditional third-party surveys (29 percent)
- Industry surveys (29 percent)
- Government data (29 percent)
- Paid online data sources (28 percent)

Only 8 percent of organizations don’t compare their jobs to the market. As we suspected, many organizations are using a variety of sources to meet their data needs. In fact, a vast majority of organizations use two or more sources of market data (82 percent). That said, just 13 percent of organizations use five or more sources of market data.

Need help picking the right data for your organization? This whitepaper walks you through all the sources, including the pros and cons of each.

Frequent Market Data Requests

More than half of the surveyed organizations completed a full market study within the past year. That number rises to 60 percent of enterprise organizations (vs. 59 percent of large, 52 percent of mid, and 48 percent of small organizations). Depending on your choice of technology, it isn’t always feasible to do a full market study multiple times a year. That said, we found that more than half of organizations referenced market data for individual jobs at least twice a year. Five percent checked market data daily. In order to move at the speed of business, you may find that you have to ping the market for data on a weekly basis. You wouldn’t be alone: 46 percent of
enterprise organizations reference market data at least weekly (vs. 38 percent of large, 15 percent of mid and 5 percent of small organizations).

**Compensation Structure: Turning Market Data Into Guidelines for Pay**

The bottom line is that organizations have their finger on the pulse of the market. From there, they turn that market data into guidelines for pay. Sixty-six percent of organizations base their organizational structures on market data. This represents a significant shift from last year where just 49 percent assigned jobs to grades using market data. The way they structure those guidelines varies from organization to organization. Most organizations develop pay ranges for each position. That said, almost a quarter of organizations have pay grades in place. Pay grades group together similar jobs based on market value, level of responsibility, and value to the organization.

**Types of Compensation Structure**

<table>
<thead>
<tr>
<th>Type</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pay ranges for each position</td>
<td>32%</td>
</tr>
<tr>
<td>Pay ranges for groups of jobs</td>
<td>19%</td>
</tr>
<tr>
<td>We don’t have a structure</td>
<td>16%</td>
</tr>
<tr>
<td>A mix of grades and ranges-by-position</td>
<td>7%</td>
</tr>
<tr>
<td>Other</td>
<td>3%</td>
</tr>
<tr>
<td>Broadbands</td>
<td>3%</td>
</tr>
</tbody>
</table>

The prevalence of pay grades is, not surprisingly, much higher in enterprise (45 percent) than in small organizations (14 percent). Some industries are also more suited to pay grades, such as Finance & Insurance (33 percent) and Government (36 percent) vs. Construction (13 percent) or Agencies & Consultancies (11 percent).
Top-performing organizations are more likely to have a mix of grades and ranges (22 percent vs. 15 percent of typical organizations). Having a mix allows organizations to be both intentional in how they pay (fair, compliant, competitive) and also flexible to shifting market conditions.

**Pay by Geography**

As organizations grow, they sometimes struggle to determine when to start differentiating pay for their various geographies. Of the organizations who have multiple locations, 57 percent pay according to local market conditions, while preserving internal equity across the organization. That number rises to 63 percent of top-performing organizations (vs. 55 percent of typical).

**Organizations with Multiple Locations That Differentiate Pay by Geography**

- 45% small
- 58% mid
- 63% large
- 77% enterprise

Once organizations are mid-sized, the majority of them differentiate pay by geography.
Spotlight: The Salary History Debate

The debate rages on about whether asking salary history perpetuates lower pay for women and other underrepresented minorities. In 2016, Massachusetts became the first state to ban employers from asking job candidates about their salary history, but they are not the last. A number of cities and states followed their lead in 2017, as well as organizations like Facebook, Google and Amazon who have voluntarily banned the practice internally. PayScale has also opted to no longer ask any job candidates about salary history.

It’s a polarizing topic. Almost as many organizations “always ask” candidates about salary history as “never ask.” Job level doesn’t seem to have much of an effect on whether an organization chooses to ask the question. Top-performing organizations are slightly more likely never to ask about salary history.

Who’s Getting Asked About Salary History?

<table>
<thead>
<tr>
<th>We Always Ask</th>
<th>We Often Ask</th>
<th>We Sometimes Ask</th>
<th>We Never Ask</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive</td>
<td>35%</td>
<td>14%</td>
<td>13%</td>
</tr>
<tr>
<td>Vice President</td>
<td>33%</td>
<td>15%</td>
<td>13%</td>
</tr>
<tr>
<td>Director</td>
<td>34%</td>
<td>16%</td>
<td>13%</td>
</tr>
<tr>
<td>Manager/Supervisor</td>
<td>34%</td>
<td>17%</td>
<td>15%</td>
</tr>
<tr>
<td>Individual Contributor</td>
<td>33%</td>
<td>16%</td>
<td>14%</td>
</tr>
</tbody>
</table>

Many recruiters and hiring managers have relied on salary history to help screen out candidates who may be above the range for a position. Others, though, have used it to gather salary data on hard-to-price positions or inform a final offer, both of which can certainly lead to inequities.

PayScale recently conducted a study to better understand whether the concerns about salary history held up under scrutiny, and what we found surprised us. Rather than seeing a negative impact on pay for women who revealed their salary, we found that a woman who is asked about her salary history and declines to disclose earns 1.8 percent less than a woman who discloses. There is an opposite effect for men. If a man declines to disclose, he gets paid 1.2 percent more on average. We have some hypotheses as to why this may be, but in any case, asking the question seems to be doing more harm than good.

Andrea Johnson, senior counsel for state policy at the National Women’s Law Center (NWLC), put it well in an interview with Fortune when she said, “It’s harder to de-bias minds and easier to de-bias processes.” For those looking to move away from asking salary history, we’ve compiled some guidance in this whitepaper.
Chapter 2: Variable Pay Playbook

In a competitive, yet uncertain, year it’s not surprising that variable pay remains a staple for organizations seeking to attract and retain the best people. In 2017 as in 2016, more than 70 percent of organizations offered variable pay. Among top-performing organizations the prevalence is even greater (79 percent vs. 70 percent of typical). Done right, variable pay has the benefit of increasing the return on your compensation investment. A well-defined variable pay plan pays out when people, teams and/or the organization succeed. Assuming that your plan does not accidentally encourage people to cheat for money, the benefits of variable pay for both organization and individual can be great.

In last year’s report, we noted that the trend on variable pay is moving toward incentives or bonuses that are paid out more frequently. That trend has continued, as the number of organizations paying out bonuses or incentives on an annual basis in 2017 remained lower than in 2016 (56 percent vs 67 percent). Organizations are likely to give out variable pay on a quarterly (17 percent) or even monthly (10 percent) basis.

Frequency of Bonuses or Incentives Over Time

In industries that typically have shorter tenures, the likelihood that they pay out bonuses or incentives on a quarterly basis is higher; for example in the food and hospitality or tech industries (both of whom have an average tenure...
of under three years), nearly a quarter of organizations report paying out bonuses or incentives on a quarterly basis.

**Types of Bonus or Variable Pay**

There are many forms of variable pay which organizations use to properly reward, incentivize and motivate their talent. By far, the most typical form of variable pay is the individual incentive bonus (67 percent), followed by spot bonuses/other discretionary bonus programs (39 percent) and employee referral bonuses (39 percent). Hiring bonuses come in at 34 percent, reflecting the need to bring in talent.

The types of bonuses or incentives used vary greatly depending on the size of the organization.

**Bonus Type by Organization Size**

Enterprise organizations are far more likely than small ones to use hiring bonuses (67 percent vs. 14 percent). They are also more likely to count on a retention bonus (50 percent vs. 11 percent) or an employee referral bonus (54 percent vs. 23 percent).
In general, it seems that more organizations are relying on variable comp to drive the types of behaviors they want to see among their employees, whether it’s staying, performing, or referring new potential employees. Relying on variable comp can be helpful since it doesn’t incur ongoing costs and is beneficial when organizations can’t increase their annual merit budget.

**Benefits and Perks**

Rounding out the total rewards package, it seems that the typical benefits and perks offered by organizations hasn’t significantly shifted from prior years. Organizations are still relying heavily on employer paid medical, dental, and vision (75 percent). At a time when healthcare continues to be uncertain for U.S. employees, that strategy makes sense.

**Variety of Benefits Offered**

<table>
<thead>
<tr>
<th>Benefit Offered</th>
<th>% of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employer-paid Medical, Dental, Vision, etc.</td>
<td>75%</td>
</tr>
<tr>
<td>403b or 401k</td>
<td>67%</td>
</tr>
<tr>
<td>Accrued or Granted PTO</td>
<td>54%</td>
</tr>
<tr>
<td>Education or Tuition Reimbursement</td>
<td>46%</td>
</tr>
<tr>
<td>Accrued or Granted Sick</td>
<td>45%</td>
</tr>
<tr>
<td>Accrued or Granted Vacation</td>
<td>44%</td>
</tr>
<tr>
<td>Remote Work</td>
<td>39%</td>
</tr>
<tr>
<td>Paid Family Leave</td>
<td>29%</td>
</tr>
<tr>
<td>Paid Vacation (Reimbursed)</td>
<td>26%</td>
</tr>
<tr>
<td>Gym Membership or Reimbursement</td>
<td>22%</td>
</tr>
<tr>
<td>Transportation Allowance</td>
<td>19%</td>
</tr>
<tr>
<td>Pension</td>
<td>15%</td>
</tr>
<tr>
<td>Equity</td>
<td>11%</td>
</tr>
<tr>
<td>Unlimited PTO</td>
<td>6%</td>
</tr>
<tr>
<td>Unpaid Sabbatical</td>
<td>6%</td>
</tr>
<tr>
<td>Paid Sabbatical</td>
<td>4%</td>
</tr>
<tr>
<td>Commute Time</td>
<td>3%</td>
</tr>
<tr>
<td>Paid Childcare</td>
<td>2%</td>
</tr>
</tbody>
</table>

This year we inquired about a number of new benefits we’ve been hearing
Some are utilized more often than others, such as education or tuition reimbursement (46 percent), paid family leave (29 percent), gym membership or reimbursement (22 percent) and transportation allowance (19 percent). Regardless of what most organizations are doing, in order to pick the benefits that will work for your organization, make sure you have a pulse on what will best motivate your employees.

**Performance and Pay**

One final consideration for the variable pay playbook has to do with how organizations decide to reward their high-performing employees. While many do so with base pay by giving larger pay increases to those with better performance, many organizations reward performance with both monetary and non-monetary means.

### How Organizations Reward/Recognize High-Performing Employees

<table>
<thead>
<tr>
<th>How Organizations Reward</th>
<th>% of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bigger Base Pay Increase</td>
<td>54%</td>
</tr>
<tr>
<td>Bonus or Incentive, No Formal Plan</td>
<td>35%</td>
</tr>
<tr>
<td>Award or Recognition</td>
<td>29%</td>
</tr>
<tr>
<td>Goal-based Bonus or Incentive</td>
<td>27%</td>
</tr>
<tr>
<td>Non-monetary Public Recognition</td>
<td>24%</td>
</tr>
<tr>
<td>Flexible Work Schedule</td>
<td>21%</td>
</tr>
<tr>
<td>We Don't</td>
<td>13%</td>
</tr>
<tr>
<td>Commissions</td>
<td>12%</td>
</tr>
<tr>
<td>Paid Time Off</td>
<td>12%</td>
</tr>
<tr>
<td>Flexible Work Location</td>
<td>10%</td>
</tr>
<tr>
<td>Equity</td>
<td>8%</td>
</tr>
<tr>
<td>Other</td>
<td>3%</td>
</tr>
</tbody>
</table>

In 2017, three of the top five ways of recognizing performance were monetary. The number one way was with base pay increases (54 percent). Recognition and **engagement** also featured prominently in organizational strategies to reward performance. With so many recognition platforms around, such as **Globoforce**, it’s no wonder that organizations are turning to the power of crowdsourcing to recognize their employees.
Chapter 3: Corporate Chasm

PayScale is in the very unique position of being able to survey both employees and employers. Through this data collection, we can compare perceptions on workplace engagement held by both groups and identify the gaps. We call this the corporate chasm and we have been tracking it for a few years now.

This year the gap remains fairly substantial in the areas of fair pay and appreciation, where only 21 percent of employees feel they are paid fairly and just 46 percent feel appreciated at work.

Differences in Perceptions on Workplace Engagement

<table>
<thead>
<tr>
<th>Perception</th>
<th>% Agree or Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company Pay Processes are Transparent</td>
<td>Workers: 24%</td>
</tr>
<tr>
<td>Employees Feel They are Paid fairly</td>
<td>Workers: 21%</td>
</tr>
<tr>
<td>Interactions Tend to be Positive and Productive</td>
<td>Workers: 51%</td>
</tr>
<tr>
<td>Managers and Employees Have Great Relationships</td>
<td>Workers: 58%</td>
</tr>
</tbody>
</table>

This year the gap remains fairly substantial around the perception of fair pay. Both groups agree that pay processes don’t tend to be very transparent. New in 2018, we learned that workers are less likely to feel that interactions are positive and productive at work. That said, managers might not be the problem, as 68 percent of workers report having a great relationship with their manager.

Pay Brand

At PayScale, we know that organizations with a strong pay brand have more satisfied employees and smaller gaps in perception between employees and management when it comes to key workplace issues.

What is your pay brand? It’s the thing that people say to each other at a cocktail party about the rewards (and culture of rewards) at your organization and what it’s like to work there. In order to build your pay brand, you’ll need to have a compensation strategy, evaluate your pay to the market, and be intentional about the rewards you give out to your employees.
You’ll also want to tell your employees how pay decisions are made. We think this is so important that we did a study in 2017 to better understand the drivers of engagement. Spoiler alert: you can’t just give people more money and expect them to be engaged. You actually have to talk to them and let them know they are paid competitively. They won’t assume the best.

**Employee Engagement**

We correlated a number of drivers of employee engagement (such as manager relationships, feeling appreciated and pay process transparency) to see which drivers have the greatest impact on employee satisfaction and intent to leave. The important thing to know is that everything matters. Every single driver had an impact on employee satisfaction and intent to leave, but some drivers had a much larger effect than others.

**Fairness & Pay Equity**

To build a good pay brand, you need to communicate to employees that you’re paying fairly and you are concerned with pay equity in your organization. Paying everyone fairly doesn’t mean paying everyone the same. It means having a defined way of rewarding the things that matter most to your organization, like performance, experience and critical skills.

It turns out that one of the best ways to show employees that you care about paying fairly is to reward high performers. Increasingly, employers are also talking about their diversity efforts including the provision of better access for
women and people of color to leadership roles, conducting pay equity audits, and even sharing pay equity data. A multiyear study from McKinsey has shown that diversity has bottom-line payoffs: organizations in the top quartile for racial and ethnic diversity are 35 percent more likely to have financial returns above their respective national industry medians and those in the top quartile for gender diversity are 15 percent more likely. Organizations in the bottom quartile both for gender and for ethnicity and race are statistically less likely to achieve above-average financial returns, according to McKinsey.

In 2018, 28 percent of organizations are planning to conduct a racial and/or gender pay equity analysis. For many employers, a strong focus on diversity and inclusion is reflected in an ability to more effectively recruit, retain, motivate, and engage the talent they need to accomplish organizational objectives.

**Pay Communication and Transparency**

Another way to improve engagement — and narrow the corporate chasm — is to talk to employees more about your pay process. In last year’s report, we introduced the Pay Transparency Spectrum to help employers make necessary decisions about what types of information they want to share and how. As mentioned earlier, having a transparent pay process is more impactful than market-competitive pay in driving both retention and employee satisfaction.

**Pay Transparency Spectrum**

In 2018, organizations have greater aspirations toward transparency than they did in 2017, with 58 percent of organizations aiming to be transparent (level three or greater) compared to 54 percent in 2017. Organizations don’t have to reveal compensation for all employees, however, in order to achieve better transparency. A few steps you can take to move towards increased transparency are to discuss how their pay is determined, where their compensation falls in the pay range and what the pay and compensation philosophy is for your organization.
To make their intentions known, organizations are providing total compensation statements to employees.

In 2018, we notice that larger organizations are less likely to provide total compensation statements for their employees than they were last year. There are several hypotheses about why this may be so, including the increased prevalence of available market pay information and the fact that more and more employees and managers have access to their full compensation data at all times. For those who do not yet have easy access to total compensation statements, the administrative burden of developing them doesn’t seem worth the effort. Finally, HR may be concerned that employees will compare total compensation statements amongst themselves and find that they’re at a lower range of penetration than a peer—even though it’s perceived that they have the same skill level. Let us give this quick cautionary reminder.
to all: conversations about pay can sometimes matter more than pay itself. Even if your employees have self-service options, they can easily misinterpret the numbers, so it’s a good idea to encourage managers to go through the reports with them on a regular basis.

**Manager Trust**

Of course, in order to share total compensation statements with employees, you have to trust your managers to have those conversations effectively. We find that organizations don’t trust their managers to talk about pay: only 10 percent of organizations are very confident in their managers’ abilities to explain the rationale behind pay decisions.

What’s interesting here is that managers feel much more confident having these pay conversations than you’d think, based on how little organizations have faith in them to do so.

**A Crisis in Confidence**

There is a huge gap in the perceptions managers have of their own ability to explain the rationale behind pay increases versus HR’s perception of managers’ abilities. When we think about it, many organizations rely on managers to coach employees, evaluate their performance and help them accomplish the work that needs to be done on a daily basis. Thirty-six percent of managers are communicating pay decisions, so why the lack of trust? Would it be different if managers were more involved in setting pay for those that they supervise? One critical step to better pay communication in organizations is better communication between HR and managers on issues surrounding pay.
Who’s in Charge of Compensation?

Executives continue to be the final decision-makers when it comes to approving the compensation budget. Once again, we see them realizing the value of compensation and its role in achieving business goals. Functional managers continue to be involved in compensation via communicating (36 percent), recommending (33 percent) and approving (10 percent) pay decisions.

Role in Compensation by Position

Thirty-three percent of all organizations have a compensation team (holding steady with last year’s numbers). They are most likely to report to the CEO in small and mid-size organizations (50 percent and 36 percent, respectively), and to the VP of HR in large or enterprise organizations (26 percent and 27 percent, respectively).
Who Comp Team Reports to by Organization Size

<table>
<thead>
<tr>
<th>Role</th>
<th>Small</th>
<th>Mid</th>
<th>Large</th>
<th>Enterprise</th>
</tr>
</thead>
<tbody>
<tr>
<td>CEO</td>
<td>50%</td>
<td>36%</td>
<td>10%</td>
<td>9%</td>
</tr>
<tr>
<td>CFO</td>
<td>6%</td>
<td>7%</td>
<td>6%</td>
<td>5%</td>
</tr>
<tr>
<td>CHRO</td>
<td>1%</td>
<td>9%</td>
<td>20%</td>
<td>24%</td>
</tr>
<tr>
<td>COO</td>
<td>7%</td>
<td>9%</td>
<td>4%</td>
<td>2%</td>
</tr>
<tr>
<td>Board of Directors</td>
<td>21%</td>
<td>11%</td>
<td>3%</td>
<td>4%</td>
</tr>
<tr>
<td>VP of HR</td>
<td>3%</td>
<td>12%</td>
<td>26%</td>
<td>27%</td>
</tr>
<tr>
<td>HR Director</td>
<td>5%</td>
<td>10%</td>
<td>23%</td>
<td>17%</td>
</tr>
</tbody>
</table>

Manager Training

Only 29 percent of organizations train their managers to have these retention- and satisfaction-critical conversations about pay. And when they do train managers, they don’t often get to the level of detail that would be helpful. As we continue to progress through a generational shift in our organizations, we’ll have lots of new managers who have never had a pay conversation from that side of the table before.

What kinds of things are organizations training on? The most typical training is about basic communication styles (74 percent). Many share information about organization performance (66 percent) and organization culture (65 percent) to inform the talking points that managers share with employees. Training on how to have specific compensation conversations is the least common (52 percent). Let’s be honest: some compensation conversations are hard. The very first time a new manager stumbles through that conversation shouldn’t be with the recipient of an unexpectedly low pay increase.

How much do you trust your managers? Do you give your managers enough resources and training so that they can do what they need to do to coach, communicate with, and appropriately reward employees? Do you trust them to set the right goals to drive the right behaviors? Are you giving them the freedom to give big increases to their highest performers? To win the war on talent, managers need to be more involved in the world of comp.
Chapter 4: Top-Performing Organizations

Top-performing organizations are defined as those that are number one in their industry and who met or exceeded their revenue goals in 2017. Throughout the report, we differentiate top-performing organizations from typical organizations so that we can better identify what really sets top-performers apart. When we work with organizations to advise them on compensation best practices, we find that these same top-performing organizations are ahead of the pack when it comes to decisions they make about not just compensation, but culture and pay brand.

Here are the top things top-performing organizations do differently.

Pay as an Ongoing Practice, Not an Event

Top-performing organizations tend to consider pay to be an ongoing dialogue with employees, not an annual event that comes and goes. We can see this in the frequency of market study (56 percent of top-performing organizations have completed a market study within the past year vs. 51 percent of typical), frequency of bonuses and incentive pay (31 percent of top-performing organizations give bonuses or incentives at least quarterly vs. 28 percent of typical), and frequency of obtaining market data for individual jobs (37 percent of top-performing organizations get market data for individual jobs at least monthly vs. 33 percent of typical).

While top-performing organizations are on top of their pay practices, that doesn’t necessarily mean they adjust their ranges more often than typical organizations: top-performing organizations adjust ranges annually, too (61 percent of top-performing organizations shifted ranges within the past year vs. 60 percent of typical).
Build Pay Brand With Intention

Top-performing organizations are also more likely to connect the dots between compensation and culture. They start by being intentional about how they spend their compensation budgets: top-performing organizations are more likely to have a formal compensation strategy (46 percent vs. 35 percent of typical). In practice, this means:

- Top-performing organizations reference market data for their jobs. Only 18 percent of top-performing organizations do not complete full market studies (vs. 24 percent of typical). They are also more likely to let that data drive their pay higher for competitive jobs (58 percent vs. 50 percent of typical).

- Top-performing organizations give base pay increases. Eighty-seven percent of top-performing organizations gave increases in 2017 (vs. 78 percent of typical). They also budgeted higher increases: 33 percent of top-performing organizations budgeted higher than 3 percent raises (vs. 27 percent of typical).

- Top-performing organizations are also more likely to use variable pay (79 percent, vs. 70 percent of typical). When they do, they’re also more likely to budget their variable pay (only 18 percent of top-performing organizations don’t budget variable pay vs. 27 percent of typical).

- Top-performing organizations fight to keep their talent (only 28 percent don’t counter-offer if an incumbent gets an offer, vs. 32 percent of typical), especially if they are high-performers (25 percent of top-performing organizations vs. 19 percent of typical).

- Top-performing organizations are actively addressing inequities due to gender (25 percent vs. 17 percent of typical) or ethnicity (18 percent vs. 15 percent of typical).

Listen to Employees and Trust Managers

- **Engagement:** Top-performing organizations get a pulse on employee engagement much more frequently (24 percent use ongoing or real-time surveys to measure employee engagement, vs. 16 percent of typical). What’s more, they actually pay attention to results: 32 percent of top-performing organizations have changed their pay strategy as a result of employee feedback (vs. 26 percent of typical).

- **Development:** Top-performing organizations have plans to develop their staff: 61 percent of top-performing organizations offer learning and development to recruit and retain high-performers (vs. 55 percent of typical).
• **COMPversations:** Top-performing organizations are more likely to trust their managers for those tricky comp conversations: 67 percent of top-performing organizations are either confident or very confident in their managers’ abilities to have tough conversations about pay (vs. 57 percent of typical). They are also more likely to train managers to talk about pay (36 percent vs. 27 percent of typical).

• **Pay Transparency:** Top-performing organizations have greater aspirations for being transparent with their pay practices: 62 percent of top-performing organizations aim to be transparent about pay in 2018 (vs. 56 percent of typical).

Finally, top-performing organizations really do trust their managers more.

**Trust in Managers**

<table>
<thead>
<tr>
<th></th>
<th>Top-Performing Orgs</th>
<th>Typical Orgs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Managers have a say in employee pay increase amounts</td>
<td>62%</td>
<td>53%</td>
</tr>
<tr>
<td>Pay increase rationale for employees is understood by managers</td>
<td>65%</td>
<td>60%</td>
</tr>
<tr>
<td>Managers do a good job explaining pay increase rationale to employees</td>
<td>44%</td>
<td>35%</td>
</tr>
<tr>
<td>Managers believe their employees are paid fairly</td>
<td>58%</td>
<td>45%</td>
</tr>
</tbody>
</table>

They are more likely to report that their managers have a say on pay for their direct reports, understand the pay increases approved for their direct reports, can explain the rationale behind increases, and believe their direct reports are paid fairly. In short, they give their managers credit for knowing both how comp decisions are made and how to communicate comp across their organization.
Chapter 5: Comp Crystal Ball – Biggest Challenges for 2018

While parts of 2018 seem very uncertain, from tax legislation to equity laws to minimum wage to FLSA updates, other parts are very stable.

Future Outlook

In many ways, compensation in 2018 looks much like 2017.

• Most organizations plan to give increases in 2018 (84 percent). There is a little variability by industry: 92 percent of Energy & Utilities organizations expect to give increases in 2018, while only 73 percent of Arts, Entertainment, & Recreation organizations expect to do so.

• While 25 percent of organizations averaged 3 percent raises in 2017, 30 percent predict that they will give an average raise of 3 percent in 2018. The majority of organizations predict that their bonus or incentive budgets will not change in 2018.

Biggest Predicted Challenges for 2018

What are people concerned about in 2018? We asked respondents to share their predictions for the biggest challenges HR will face in 2018. The responses we received were broad in nature, but there were some big themes that stood out in addition to the tried-and-true responses around recruitment and retention:

- Finding good, talented people – without overpaying
- Focusing leadership development in the right direction
- Improving systems, processes, and documentation
- Employee recognition and engagement
- Organizational growth – being prepared to scale
- Getting leadership on board with compensation approach going forward
- Competitive pay
Survey Methodology

The 2018 Compensation Best Practices Survey gathered responses during November and December 2017. There were 7,100 respondents.

Top-Performing Organizations

Top-performing organizations are defined as those who are number one in their industry and met or exceeded their revenue goals in 2017. Seventeen percent of respondents were top-performing.

Location

Respondents spanned the globe, including 5,143 respondents in the United States and 567 respondents in Canada.

Percent of Respondents by Location

- United States: 73%
- Canada: 8%
- Other: 7%
- India: 5%
- Australia: 2%
- South Africa: 1%
- United Kingdom: 1%
- New Zealand: 1%
Organizations with both single and multiple locations were represented.

**Percent of Respondents by Number of Locations**

- 1 exclusive location: 14%
- 2 - 10 separate locations: 37%
- 11 - 20 separate locations: 7%
- 21 + separate locations: 42%

**Organization Size**

We defined four organizational 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). While about half of the respondents reflect small organizations, more than 1,300 come from large and enterprise organizations.

**Percent of Respondents by Organization Size**

- Small: 48%
- Mid: 13%
- Large: 29%
- Enterprise: 10%
Industry and Organization Type

As in prior years, the top four industries represented in the survey were Technology, Healthcare, Manufacturing, and Nonprofit. In terms of organization type, most respondents were either from a public or private organization (74 percent), but there were responses from schools, hospitals and governments as well.

Job Level

Most respondents self-identified at the manager level (34 percent). Twenty-three percent were Directors, 22 percent individual contributors, and 21 percent at the Vice President or C-level.

About PayScale

Creator of the world’s largest database of rich salary profiles, PayScale offers modern compensation software and real-time, data-driven insights for employees and employers alike. Thousands of organizations, from small businesses to Fortune 500 companies, use PayScale products to power pay decisions for millions of employees. For more information please visit: http://www.payscale.com or follow PayScale on Twitter: https://twitter.com/payscale.