Trends in Compensation: “Reading the Tea Leaves of Economic Data”

Presented by
Kerry Chou
Senior Practice Leader
Today’s Discussion

- Current Compensation Landscape
- Performance Management
- Employee Value Proposition and Pay Transparency
Current Compensation Landscape: Up to Now It’s Been Hurry Up and Wait........
Recent History of Unemployment and Inflation

BLS: Unemployment as of December each year, CPI last 12 month rate as of December of each year
Labor Force Participation is Stabilizing, But Still Low

<table>
<thead>
<tr>
<th>Age 16+</th>
<th>Age 25-54</th>
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<tbody>
<tr>
<td>2007</td>
<td>66.0</td>
</tr>
<tr>
<td>2008</td>
<td>65.6</td>
</tr>
<tr>
<td>2009</td>
<td>64.6</td>
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<tr>
<td>2010</td>
<td>64.0</td>
</tr>
<tr>
<td>2011</td>
<td>63.7</td>
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<tr>
<td>2012</td>
<td>62.9</td>
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<tr>
<td>2013</td>
<td>80.9</td>
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<tr>
<td>2014</td>
<td>81.0</td>
</tr>
<tr>
<td>2015</td>
<td>81.5</td>
</tr>
<tr>
<td>2016</td>
<td>81.5</td>
</tr>
</tbody>
</table>

BLS: Current Population Survey – civilian labor force as of December each year, seasonally adjusted
Hiring and Quit Rates Approaching Pre-recession Levels
Job Creation is Trending Down…

Non-Farm Jobs Added During Past 24 Months
Salary Budget Increase Trends

WorldatWork Salary Budget Survey
Since the Recession, Salary Increase Projections Have Not Been Realized..

Data showing are mean values for all employee categories combined and include zero-percent responses.
High Correlation Between Inflation and Salary Increases

Exempt Salary Budget* Versus CPI From Previous Year
all data in percents

*for salary budget years 1976 to 2016

y = 0.6433x + 2.5903
R² = 0.7747

CPI (unadjusted 12 months ending December of each year)
Salary Budgets – National (U.S.)

Distribution of Total Salary Budget Increase Responses

Note: Data showing represents exempt salaried employee category only.
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Use of Bonus Programs on the Rise – National (U.S.)

- Referral Bonus
- Sign-On Bonus
- Retention Bonus
- Spot Bonus

Prevalence %

- Referral Bonus: 25, 60, 65
- Sign-On Bonus: 54, 74, 76
- Retention Bonus: 43, 51, 55
- Spot Bonus: 60, 60, 61

Performance Management
Pay for Performance Alive and Well

- Salary Increase Tied to Performance Rating, 65%
- Salary Increase Influenced by Performance Rating, 22%
- Salary Increase NOT Tied to Performance Rating, 13%

Performance Ratings: Keep or Toss?

No, we do not assess performance, 6%

We assess performance but do not assign a rating, 8%

We assess performance and assign a rating, 86%

Considerations in Eliminating Ratings

Pros

- Managers and employees don’t like them anyway
- May reduce unhealthy competition for scarce ratings slots
- Opportunity to shift focus from once-a-year “event” to a more ongoing process
Considerations in Eliminating Ratings

Cons

- Employees still want to know where they stand
- Removes important data point for manager pay decisions
- Places more onus on managers to communicate performance effectively
- What will you use instead for auditing purposes?
  - Ratings provide convenient single metric for analysis
Why Consider Going Ratingless?

- There were three primary factors for both adoption and effectiveness
  - **Strategic Alignment**: Supporting company values, increasing organizational performance, developing a performance culture, supporting the business strategy
  - **Process Effectiveness**: Improving employee experience, improving manager experience, providing useful feedback, increasing the time spent on coaching
  - **Reward Objectives**: Rewarding, motivating, attracting, retaining, and developing employees, rewarding top talent

Source: Cutting Edge Performance Management Study: Center for Effective Organizations - USC
These Features Improves Effectiveness:

- **Ongoing performance feedback**
  - More positive process: more developmental orientation, coaching
  - Strengthen supervisor-subordinate relationship
  - Better reviews because supervisor is better informed

- **Crowd-sourced feedback**
  - Take peer perspectives into account, especially in team-based settings
  - More real and constructive than typical 360° processes
  - Easy with social media technology
EVP and Pay Transparency
The Value of Communication in Attraction and Retention

- What is your organization’s employee value proposition (EVP)?

**Why should an employee come to work for you instead of somewhere else?**
EVP – Where the Rubber Meets the Road

- Company brand
- Company culture
- Industry trends
- Compensation
- Benefits
- Work-life balance
- Skills development
- Career development
- Recognition
Pay Transparency Prevalence

- Minimal pay-related information is shared:
  - 2016: 46%
  - 2010: 32%
- Pay program design information is shared:
  - 2016: 41%
  - 2010: 49%
- Base salary range for employee's pay grade:
  - 2016: 37%
  - 2010: 43%
- Base salary range for all pay grades:
  - 2016: 15%
  - 2010: 19%
- Actual pay of all employees:
  - 2016: 4%
  - 2010: 1%

WorldatWork Compensation Programs & Practices Survey
How Well Do Employees Understand Their Company’s Pay Philosophy?

To what extent do employees understand the company’s compensation philosophy?

- 52%: None/few
- 27%: Half
- 21%: Most/all
How Well Do Managers Communicate?

- This is a key area of deficiency
- Line managers need to be better trained and assisted in communicating reward programs

Source: Rewards Next Practices: 2013 and Beyond
2013 Rewards Next Practices Survey
Transparency: A Two-edged Sword

On the one edge.....

- It’s good to understand the deal (what, why and how)
- Employees want to know where they stand
- More transparency may lead to more trust
- If pay is a motivator, educate employees on what it takes to get more of it

And on the other.....

- Employees are often not happy where they are paid relative to other employees
- More transparency may lead to dissatisfaction and distraction