WILL THEY STAY OR WILL THEY GO?

Employee retention and acquisition in an uncertain economy

PayScale

THE 2019 COMPENSATION BEST PRACTICES REPORT

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WORKERS ARE EMPOWERED AND THEY'RE MOBILIZING

2018 was a record-year of job growth, with businesses adding 2.6 million jobs in 2018. Michael, Farren, a research fellow at the Mercatus Center at George Mason University, noted that employers hired over 40 percent more people than generally expected. Recent news shows that some employers are even hiring workers without meeting them in person and employees are "ghosting" employers due to the increased amount of opportunities to choose from. With demand exceeding the supply of labor, nominal wages ticked up 3.2 percent year over year.

Demand for workers is strong and has reached levels where workers are feeling empowered to make moves. Workers are job-hopping in record numbers in 2018. The Bureau of Labor Statistics (BLS) say that employee quits in 2018 are on track to exceed 40 million. Global HR consulting firm Mercer surveyed 163 large employers in 2018 and found that voluntary turnover the year before, not including retirements, accounted for 15.5 percent, up from 14 percent the previous year. Additionally, employees who have not already quit are likely evaluating their opportunities.

However, this isn't the reality across all job sectors. The US economy is now clustered into high skill, high paying jobs and low skill, low paying jobs. Middle income jobs that were typically represented within the manufacturing sector are now scarce (which is no surprise considering 25 percent of manufacturing jobs have vanished over the past twenty years). Employment in tech and tech occupations specifically will likely continue to grow as technology continues to become embedded within the non-tech space, but much of that growth will be concentrated along the coasts, especially considering the high state GDP growth seen in California, Washington and Oregon.

Some survey results show that money is the biggest motivator driving employees to seek other jobs, while others show career growth to be the primary incentive. Secondary reasons overall include issues related to benefits, fit with the organization or the job, and relationship problems with direct supervisor or managers.

Not only are workers empowered to make moves, it's easier than ever for them to research and evaluate employers. Workers are sharing every aspect of their work experience online — including compensation, benefits packages, company outlook, their opinions of leadership and more.

Meanwhile, employees have become fed up when their organizations behave in ways that don't align with their personal values. For example, workers in 2018 took to the streets and courtrooms to fight against perceived cases of pay discrimination (Google, Nike, Oracle). What happens within the walls of your offices can become public information within a matter of minutes.

Not only are personal values important, the core values of an organization are as well, and they are a key component in a thriving work culture. Values-based compensation — how you align your compensation philosophy with your organization's core values — will be imperative in 2019. Whether or not you've done the work to articulate core values, there are likely a few concepts most employees would agree are central to the ethos of your organization. They could be things like ownership, trust, transparency, equality, innovation or diversity. Whatever they are for your organization, now's a good time to evaluate whether those values are appropriately reflected in your compensation strategy. If your organizational values are not reflected in the way you compensate employees, it could begin to be a pain point or source of contention in the coming year.

THE NEED TO ALIGN YOUR PAY PRACTICES TO YOUR VALUES

It will prove increasingly difficult to attract and keep the right people without ensuring your compensation philosophy, strategy and practices are in close alignment with your values as an organization. We're already there in terms of a misalignment between values and compensation creating divisions between employers and their workforce. In 2019, we predict the organizations who will have the most success attracting and retaining talent will do the needed work to allow their core values to drive decisions around their compensation approach. The best way to focus on cultivating a strong pay brand, and employer brand overall, is to genuinely focus on your employees as much as you focus on customers, profit and investors. This focus needs to be reflected in the way you invest in your people, including your comp and benefits plans.

Retaining employees in this market requires more than deploying one-off programs or superficial perks, it requires constantly being true to your values and doing right by your employees. This year, we challenge you to align your pay practices to your values. For example, if *transparency* is a value for your organization, how do you breathe life into that value through your pay practices? Do you share pay ranges and market data with employees? Or, if you value *innovation*, how could you best incentivize employees to be more innovative through your comp plan?

Ultimately, what you choose in your total rewards package should reflect your values as a company, or you may see employees finding that alignment elsewhere.

TIM LOW | ***SVP, Marketing***

HIGHLIGHTS

1. Retention Is a Growing Concern but Not Enough to Stray Far From 3 percent

In this tight talent market, even more organizations (66 percent) called out employee retention as a major concern, compared to 59 percent for 2018. Yet, despite employers' concern over retaining talent, most organizations are not allocating more to their base pay increase budget. While 81 percent of organizations are planning base pay increases in 2019, the average increase isn't expected to change much from 2018, with 69 percent of employers estimating an average increase of 3 percent or less. However, organizations are differentiating pay based on performance in order to retain high performers, and they are using a variety of tactics to do so. The most popular retention tactics organizations plan to use in 2019 are the merit-based pay plan (used by 61 percent of organizations), learning and development opportunities (59 percent), and the discretionary bonus plan (34 percent).

2. The Vast Majority of Organizations Use Two Or More Sources of Market Data

Given how quickly the market can shift -- organizations in 2019 are keeping a close eye on the market. More than half (56 percent) of the surveyed organizations completed a full market study within the past year; 24 percent of the organizations referenced market data for individual jobs annually and 18 percent did so monthly. Five percent checked market data daily.

Additionally, many organizations have realized that they need to use multiple data sources to cover all of their positions. In 2018, 82 percent of all organizations used two or more sources of market data. Fourteen percent of organizations used five or more sources of market data.

3. Employers Make Greater Use of Benefits and Perks to Hire and Retain

Compared to previous years, we're seeing organizations make greater use of incentives, benefits and perks to hire and retain in this tight job market. Employers are expanding beyond traditional benefits like employer-paid health insurance and retirement plans to keep up with evolving employee needs and desires. We see many organizations embracing work-life balance as a differentiator: 44 percent of organizations allow remote work (up from 39 percent last year), 37 percent offer flextime, 32 percent offer paid family leave (up from 29 percent last year) and 10 percent offer a four-day work week. Meanwhile, unlimited PTOs has nearly doubled in the last two years (9 percent in 2018 versus 5 percent in 2016).

4. Organizations Are Challenged in Their Quest to Develop a Solid Pay Brand

Your pay brand is the way your employees would describe your organization's pay philosophy and practices to their friends and family.

This year, we see that most organizations are still grappling with how to develop a strong pay brand. Forty percent of organizations say they feel good about their pay brand among their employees; a slightly larger group (41 percent) feel their pay brand is neither good nor bad. Nineteen percent describe their pay brand among employees as bad or very bad. When we asked respondents to describe their pay brand, many answers reflected a desire for improvement. For example, some mentioned they don't have a pay brand yet. Some emphasized a desire to improve pay transparency while others said their pay brand is inconsistent among different business units. Still, others brought up the challenge of getting management buy-in to adjust their comp plan as their organization enters into a stage of rapid growth.

5. Most Organizations Are Still Wary of Sharing Pay Ranges With Their Employees

Most organizations aspire to move up the pay transparency spectrum in 2019. Twenty-eight percent of all organizations plan to share pay ranges with individual employees; 23 percent plan to reach a place where their comp plan reflects the organization's culture and drives talent strategy and 8 percent aspire to make ranges and employee pay information available to all employees. However, most organizations are still hesitant to reveal the details to their employees. In 2018, 36 percent of employers report they share pay ranges with their employees for their position. Additionally, 38 percent of employers report their employees know where they fall within the range. Just 32 percent share market data with their employees when giving the rationale for a raise.

Because most employers are not yet sharing much pay-related information with employees or job candidates, you can distinguish your organization as an employer of choice by being more open about pay than others in your market.

CHAPTER 1: 2018 YEAR IN REVIEW

2018 has been a year of job growth and low unemployment. Labor market economists were expecting a strong finish to the year, but the latest employment numbers from the U.S. Bureau of Labor Statistics (BLS) exceeded expectations.

The economy added 2.6 million jobs in 2018, besting the previous years for growth. Wages rose 3.2 percent year-over-year, and the unemployment rate has been at historical lows. This has evolved into a job seeker's market. According to our survey, 24 percent of all organizations see retention as their biggest HR challenge in 2019.

Additionally, 47 percent of organizations — the largest proportion for any answer option — say that the strong job market has increased their turnover rate. Because there are more opportunities for job seekers, it's more important than ever for organizations to be able to attract and retain the best employees.

Despite this, there are clouds of economic uncertainty on the horizon that could have additional implications for the labor market. What to do? Read on for the best practices in compensation for 2018 and what's ahead for 2019.

LET'S TALK ABOUT RAISES

Most organizations gave increases to their employees in 2018. In fact, 80 percent of organizations gave pay increases. With so many ways to provide increases, we took a deep dive into the pay increase practices of organizations.

Merit Increases

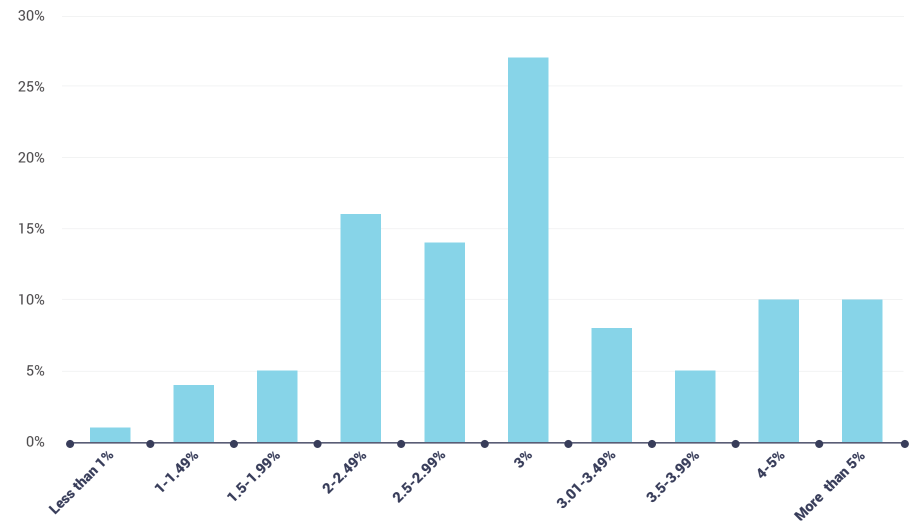
Once again the 3 percent raise prevailed (despite predictions that this would change due to the strong labor market). At PayScale, we know that the one-size-fits-all approach to allocating increases doesn't tend to be motivating to employees, especially to high-performing employees.

In 2018, the most typical organizational budgeted increase was 3 percent (32 percent of organizations) while only 27 percent actually gave out 3 percent raises (up 2 percent from last year). However, a number of organizations did aim high: almost 10 percent of organizations budgeted 4-5 percent increases (holding steady from last year), and another 9 percent of organizations budgeted more than 5 percent for increases. The percentage of organizations who reported giving higher-than-average actual increases of above 3 percent (almost 30 percent of orgs) was a bit lower than the percentage who budgeted for it (32 percent of organizations).

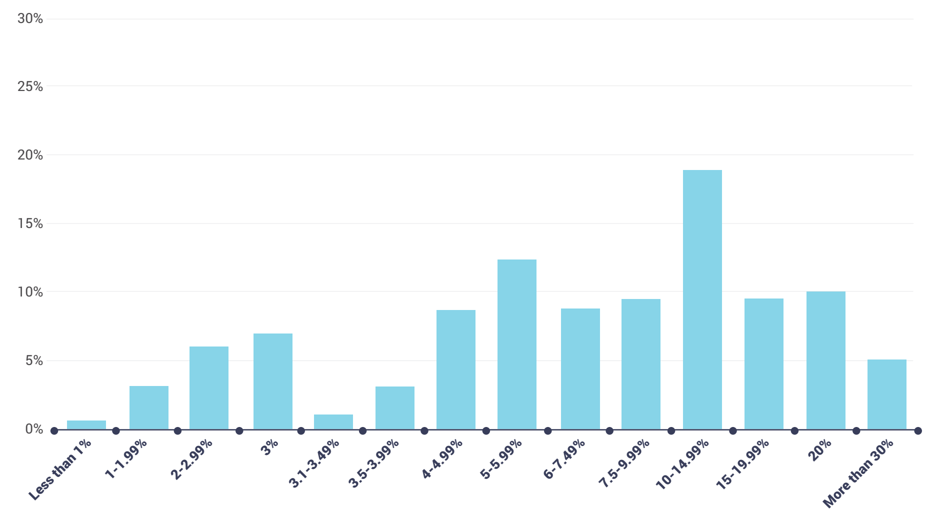
The story becomes more interesting when we start looking at the highest increases given to any employee in 2018, not related to a promotion. The range of increases given in an organization speaks to the amount of discretion given to the decision makers.

Like last year, just 7 percent of organizations gave 3 percent increases as the highest amount. Eighteen percent of organizations gave at least one increase in the 10-14.99 percent range. Almost 10 percent gave an increase of 20 to 30 percent. The larger the organization, the more likely they were to have given at least one large increase: 19 percent of small, 25 percent of mid, 29 percent of large, and 29 percent of enterprise organizations gave an increase at or above 15 percent in 2018.

AVERAGE BUDGETED BASE PAY INCREASES IN 2018



HIGHEST BASE INCREASE GIVEN TO ANY EMPLOYEE IN 2018



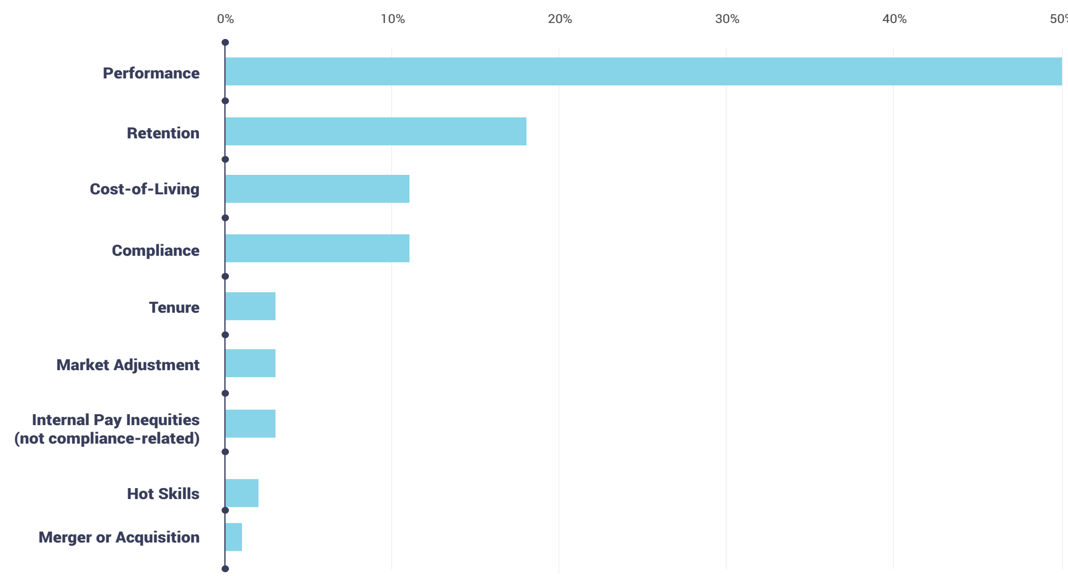
Raise Rationale

What were the main reasons for raises in 2018? These included performance, cost-of-living, retention, market adjustment, internal pay inequities (not compliance related) and Tenure.

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.

High performers 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 2018



COMP SMARTER, NOT HARDER

In 2018, we saw organizations continue to get smart about compensation. Of those organizations who participated in our survey, 62 percent agree or strongly agree that compensation is becoming more important to their executives (up 4 percent from last year). And organizations are turning their concern into action: Thirty-one percent of organizations have a compensation strategy and another 39 percent are working on developing one.

What is a compensation strategy? A compensation strategy forms the core 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 smart choices: competitive jobs, tough-to-fill jobs and retention.

COMPENSATING FOR 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. 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.

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.

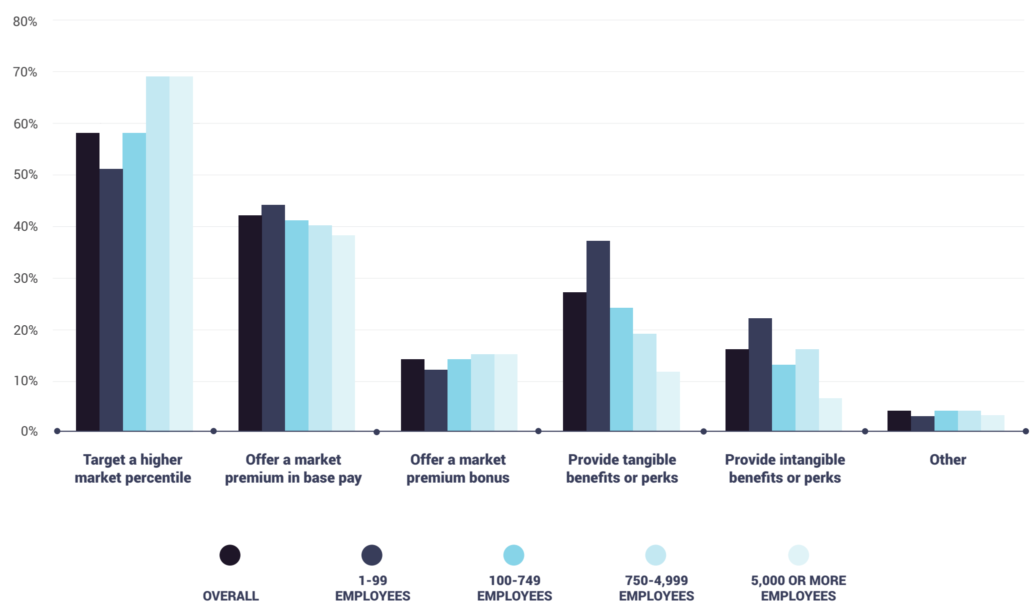
We then asked organizations how they compensate for competitive jobs. A majority of organizations target a higher market percentile. For example, they would target the 50th percentile for their core jobs, but then the 65th, 75th or even 90th percentile for their competitive roles.

Larger companies are much more likely to target higher percentiles than small companies (53 percent of enterprise, 54 percent for large and mid, and 46 percent of small organizations target a higher percentile).

INDUSTRIES THAT COMPENSATE MORE FOR COMPETITIVE JOBS

Agencies & Consultancies	44%	Government	39%
Arts, Entertainment & Recreation	59%	Health Care & Social Assistance	47%
Construction	57%	Manufacturing	58%
Education	45%	Nonprofit	36%
Energy & Utilities	48%	Real Estate & Rental and Leasing	41%
Engineering & Science	69%	Retail & Customer Service	55%
Finance & Insurance	54%	Technology	59%
Food, Beverage & Hospitality	52%	Other Industries	50%

HOW ORGANIZATIONS COMPENSATE FOR COMPETITIVE JOBS



TOUGH-TO-FILL JOBS

By contrast, tough-to-fill jobs are those that have remained vacant for six months or longer, due to a skills gap or other shortage of labor. Forty-one percent of companies have had open positions for six months or longer (up from 35 percent last year). That number rises to 58 percent of enterprise organizations (57 percent for large, 45 percent of mid, and 28 percent of small orgs).

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

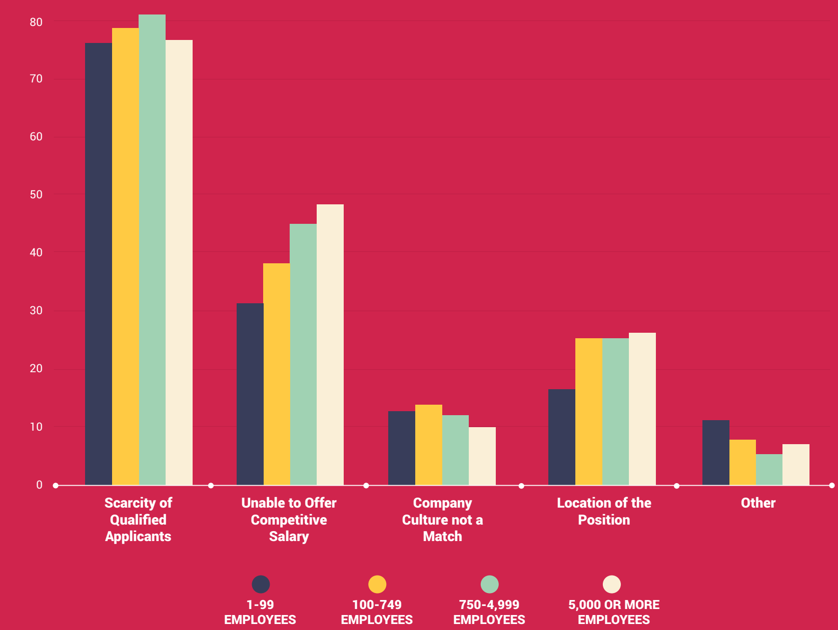
Interestingly, 69 percent of surveyed organizations prioritized skills over a formal education when making hiring decisions. This supports the trend we see: employers relax their hiring criteria when the demand for labor exceeds the supply of labor.

Tech roles continue to top the list of tough-to-fill roles; IT roles at 27 percent and engineering roles at 20 percent. Skilled trades continue to be tough to fill at 22 percent.

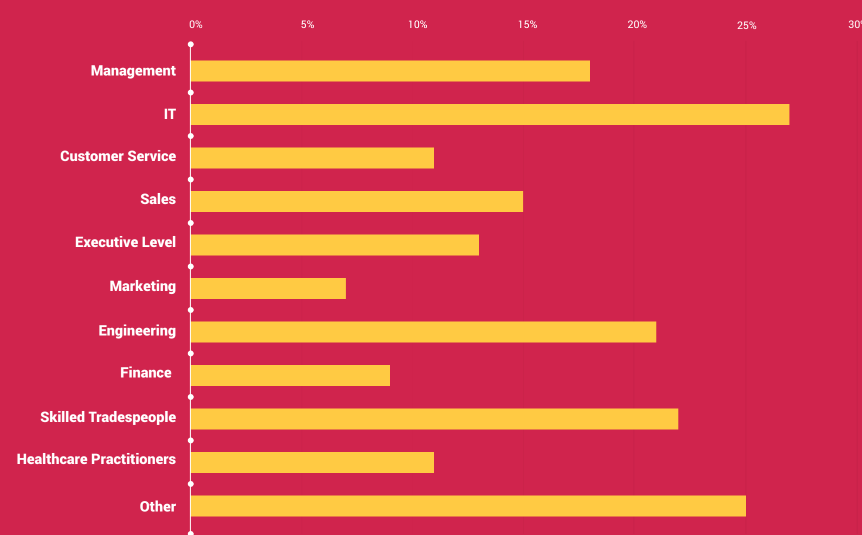
A sizable 65 percent of respondents from the energy and utility industry cited skilled tradespeople as their toughest-to-fill roles. Sixty-one percent of those in the construction industry also say they struggle to fill skilled tradespeople roles.

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.

TOUGH-TO-FILL ROLES THAT REMAIN UNFILLED BY ORGANIZATION SIZE



TOUGH-TO-FILL ROLES ACROSS INDUSTRIES



EMPLOYEE RETENTION

Sixty-six percent of organizations agree or strongly agree that keeping their best and brightest employees is a concern for them. At a time when so many options are now available for job seekers, the fear of losing hard-won talent has made organizations very nervous.

COMPANIES CONSIDER RETENTION TO BE A MAJOR CONCERN

		DISAGREE OR STRONGLY DISAGREE	NEITHER AGREE OR DISAGREE	AGREE OR STRONGLY AGREE
2017	Employee retention is a major concern for our company	22%	19%	59%
2018	Employee retention is a major concern for our company	16%	18%	66%

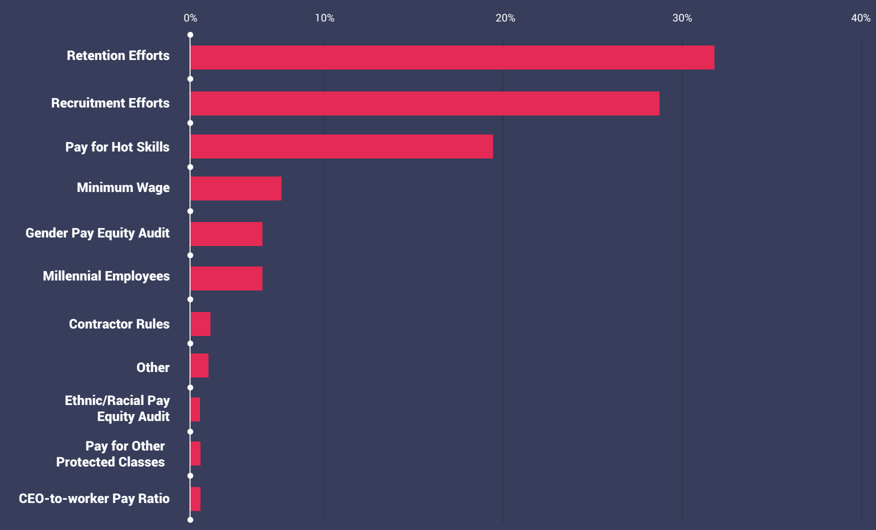
TURNOVER

Forty-six percent of organizations feel that the strong job market has impacted their turnover rates and 51 percent of organizations stated that less than 25 percent of their turnover was "good" turnover (exit of low-performing employees). While 30 percent of employees left voluntarily for personal reasons, 22 percent left for a more attractive title or role elsewhere and 21 percent left because they were offered higher pay. To combat this "brain drain," 71 percent of organizations have increased base pay, 34 percent have given employees a title change and 28 percent have provided more benefits.

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 and how have they evolved over the past few years?

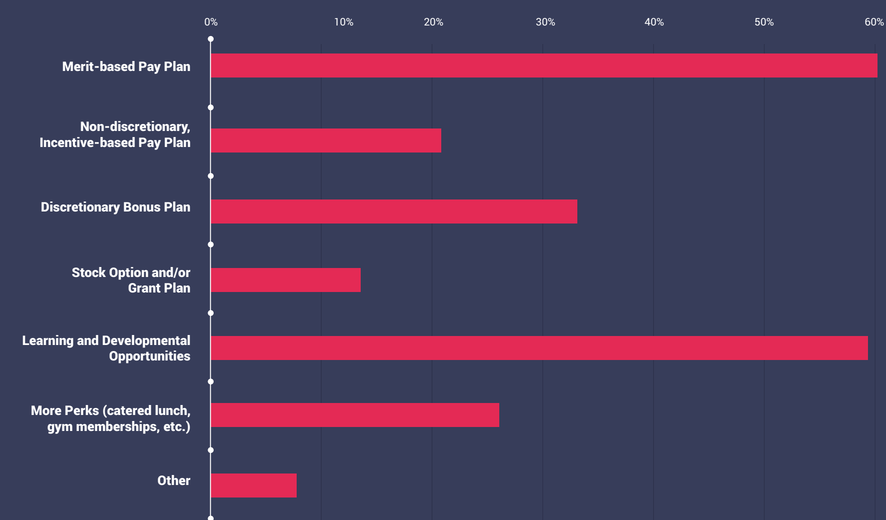
Organizations are more likely to turn to cash and merit-based pay plans than they have in the past. So they're using cash, but they're not doling it out indiscriminately. They're using a defined merit-based pay plan that connects performance with pay to retain their high-performing people. What's more, 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.

TOP REASONS ORGANIZATIONS ADJUST COMP STRATEGY



Retention tops the list of reasons organizations adjust their compensation strategy.

HOW ORGANIZATIONS PLAN TO RETAIN TOP TALENT



WHAT'S THE MARKET SAY?

Market data factors weigh heavily into whether organizations compensate more for competitive jobs. 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 (about the same as last year at 63 percent). The advantage of reviewing the free online sources is that you're able to see the same sources your employees may be looking at. 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
33%
up from 29 percent last year

Government data
32%
up from 29 percent last year

Paid online data sources
33%
up from 28 percent last year

Industry surveys
30%
up slightly from 29 percent last year

As we suspected, many organizations are using a variety of sources to meet their data needs. In fact, the vast majority of organizations use two or more sources of market data (86 percent, up from 82 percent last year). Only 14 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.

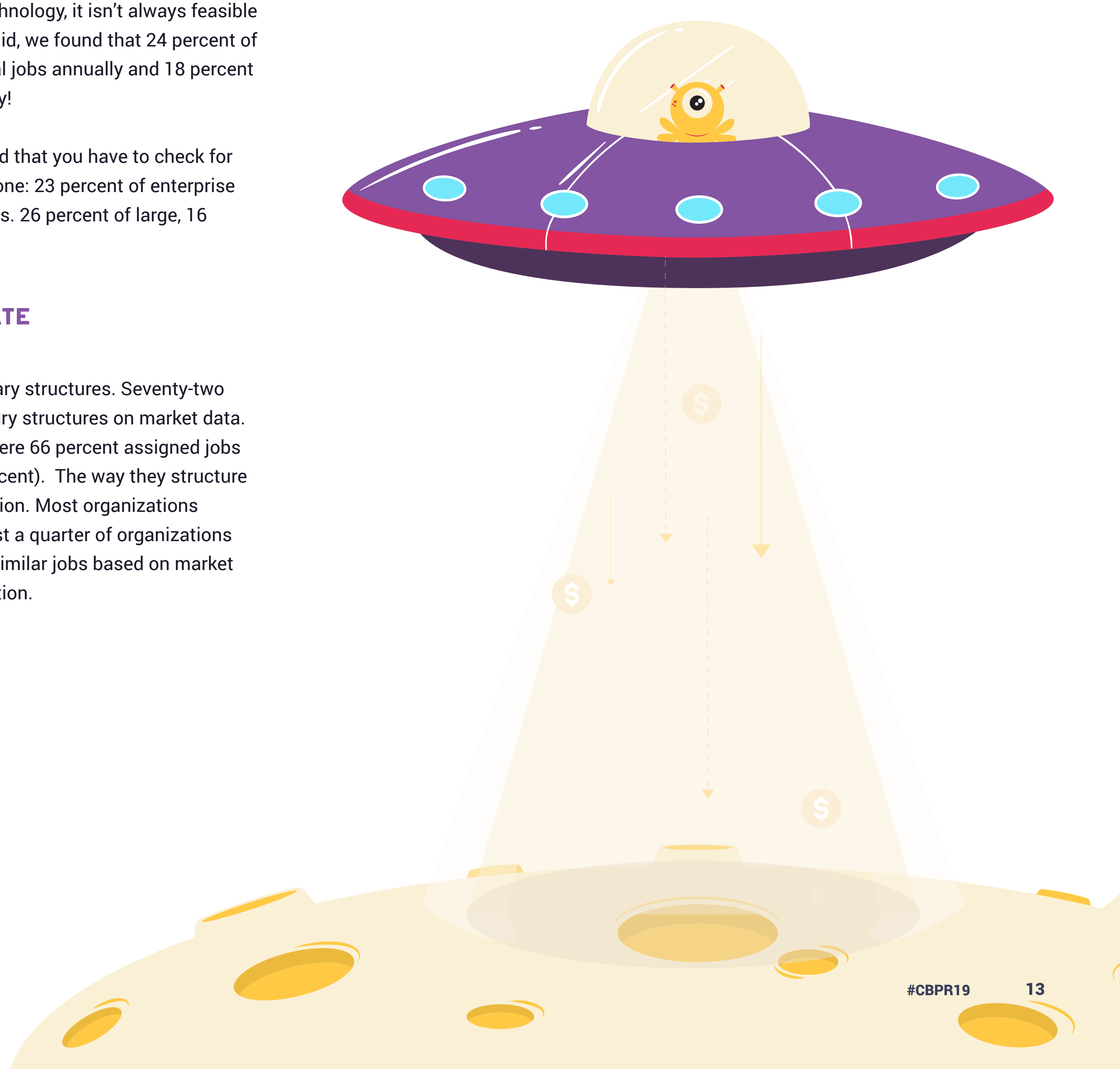
FREQUENT MARKET DATA REQUESTS

More than half (56 percent) of the surveyed organizations completed a full market study within the past year. That number rises to 62 percent of enterprise organizations (vs. 62 percent also for large, 55 percent of mid, and 52 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 24 percent of the organizations referenced market data for individual jobs annually and 18 percent did so monthly. Five percent checked market data daily!

In order to move at the speed of business, you may find that you have to check for market updates on a weekly basis. You wouldn't be alone: 23 percent of enterprise organizations reference market data at least weekly (vs. 26 percent of large, 16 percent of mid and 4 percent of small organizations).

HOW MARKET DATA IS USED TO CREATE SALARY GUIDELINES

Market data forms the backbone of organization's salary structures. Seventy-two percent of organizations base their organization's salary structures on market data. This represents a continued shift up from last year where 66 percent assigned jobs to grades using market data and the prior year (49 percent). 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.



PAY GRADES VS RANGES

Twenty-nine percent of organizations used pay ranges for each position. In the last year, 17 percent of organizations moved from pay grades to position-based pay ranges. The primary reason to make this move for 20 percent of the organizations was that position-based pay ranges provided more precision and allowed them to gain a better understanding of the true competitive nature of their positions. Thirty-nine percent made the move for a mix of reasons, including:

- **Flexibility:** make room in the salary structure for growth and change
- **Improve precision:** gain a better understanding of the market rate for the role
- **Improve culture:** ensure employees aren't so focused on pay grades
- **Improve communication** with employees around how pay decisions are made

"In an employee-driven market as we see today, where unemployment is so low, no company can afford to have a sudden and unexpected migration of its most critical employees because they failed to properly adjust their salary ranges."

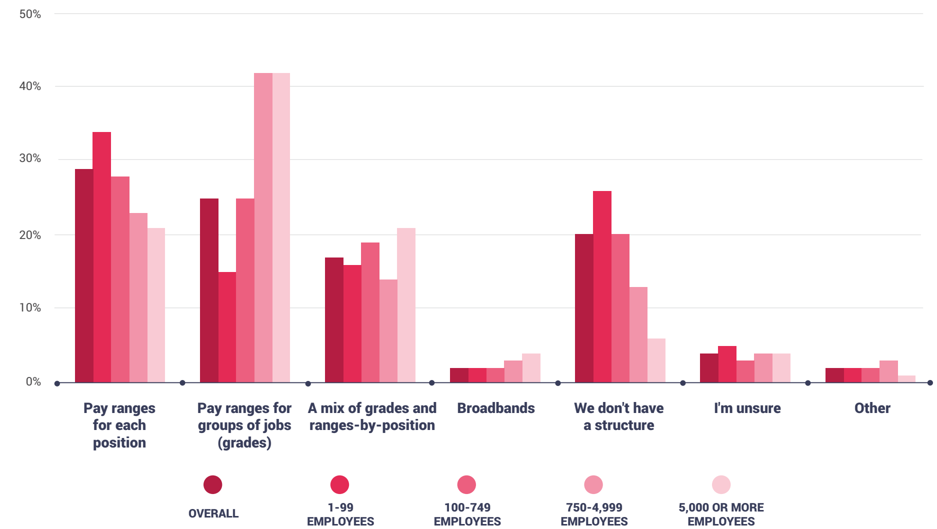
- Susan Hollingshead, Chief People Officer, Vendini

The prevalence of pay grades is higher in enterprise (42 percent) than in small organizations (15 percent). Some industries are more likely to stick with pay grades, such as Energy & Utilities (47 percent) and Government (40 percent) vs. Construction (16 percent) or Agencies & Consultancies (15 percent).

Seventeen percent of organizations have a mix of grades and ranges, and top-performing companies are more likely to choose a mix (19 percent vs. 17 percent of typical companies). Having a mix of structures allows organizations to be both intentional in how they pay and stay nimble in shifting market conditions.

Not sure which salary structure you should use? Check out this article to get some guidance.

TYPES OF COMPENSATION STRUCTURE BY ORGANIZATION

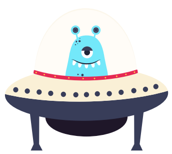


PAY BY GEOGRAPHY

As organizations grow, they sometimes struggle to determine when to start differentiating pay for their various geographies. Of the organizations who have multiple locations, 59 percent pay according to local market conditions, while preserving internal equity across the organization. Once organizations have several hundred employees, the majority of them differentiate pay by geography.

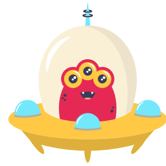
ORGANIZATIONS WITH MULTIPLE LOCATIONS THAT DIFFERENTIATE PAY BY GEOGRAPHY

SMALL
48%



MID
57%

LARGE
68%



ENTERPRISE
73%

ROLES IN THE COMPENSATION FUNCTION

In 2018, the CEO continues to be final approver of pay decisions. Once again, we see executives realizing the value of compensation and its role in achieving business goals. Meanwhile, functional managers/directors continue to be involved in compensation via recommending (77 percent) and communicating (78 percent) pay decisions to employees. In fact, line managers have become more involved in recommending pay decisions and communications in 2018 versus 2017. We also saw that HR teams are becoming more involved in all three parts of the decision-making process.

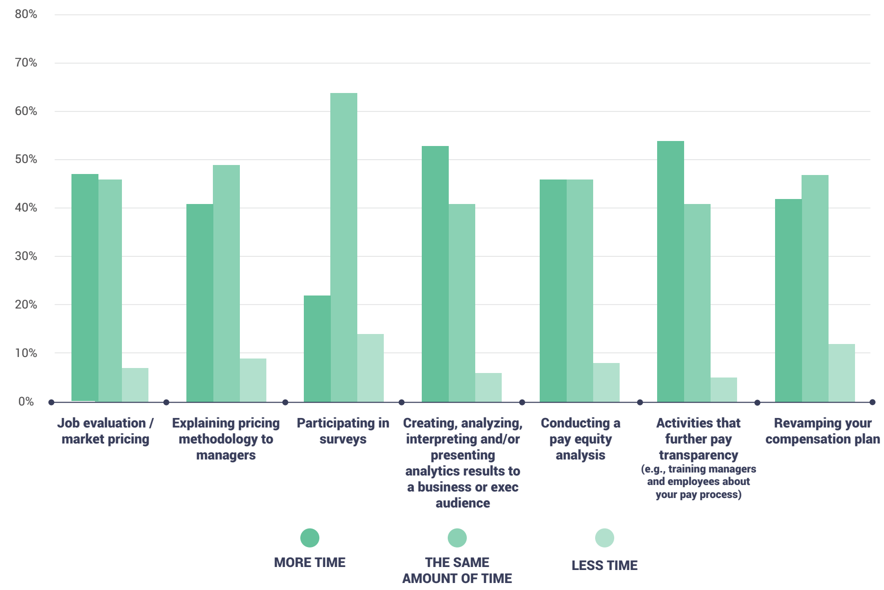
WHO IS INVOLVED IN PAY INCREASES

	APPROVE		RECOMMEND		COMMUNICATE	
	2019	2018	2019	2018	2019	2018
CEO	74%	71%	26%	22%	22%	18%
CFO	39%	35%	24%	21%	13%	9%
COO	24%	22%	18%	15%	12%	9%
Board of Directors	27%	26%	8%	6%	5%	3%
Function Vice President	24%	20%	30%	23%	21%	15%
Function Director	19%	15%	36%	30%	30%	23%
Function Manager	12%	10%	41%	33%	48%	36%
HR Team/HR Manager	26%	22%	55%	45%	49%	40%
Comp Team/Comp Manager	12%	9%	23%	19%	16%	12%

35% of all organizations have a compensation team (versus 32 percent last year).

Because retention is a top concern for many organizations today, we were curious to see whether compensation and HR professionals are taking on new tasks to better support their organization's strategy. This year, we asked comp and HR professionals to anticipate how their job might change over the next couple of years. We asked respondents to tell us whether they plan to spend more, the same amount of, or less time on each activity in 2019.

HOW COMP PROS SEE THEIR JOB CHANGING



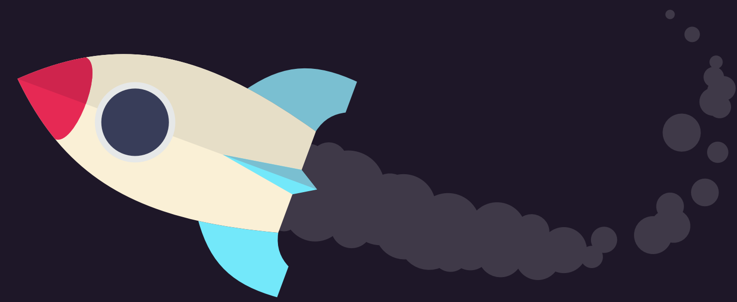
The top two activities comp professionals expect to spend more time on in 2019 are analyzing data/presenting insights to a business audience (53 percent) and improving pay transparency (54 percent). At a time when the C-suite managers and employees themselves are all paying greater attention to compensation, it makes sense that comp professionals are focusing more time and energy on these two areas. Meanwhile, given that job markets are quite volatile in many pockets of North America, comp professionals also anticipate spending more time pricing jobs in 2019 (47 percent). Additionally, as organizations realize that ensuring fair pay is central to their ability to hire and retain talent, many comp pros anticipate spending more time in 2019 on conducting pay equity analyses (46 percent).

Overall, it looks like the compensation function is becoming a more strategic function within an organization: most comp and HR professionals say they collaborate with other groups in their organization to drive strategic conversations around comp (62 percent). Another 21 percent say they meet with other teams regularly to ensure they're part of the strategic decision-making process. Only 13 percent of comp pros report they follow plans created by other teams in their organization.

SPOTLIGHT: RECESSION PLANNING

Despite a robust economy and a tight labor market, the word recession is appearing in the headlines frequently. According to *The Wall Street Journal,* the possibility of a global recession ranks as the top worry for CEOs in 2019, up from being ranked 19th out of 28 just a year ago.

As the PayScale Data Analytics team recently reported, common recession indicators such as the inversion of the yield curve suggest a recession is likely within the next 12 months. This is coupled with corporate bond debt reaching unsustainable levels, with $3 trillion in bonds just above junk-bond status. Industries especially at risk include natural resource companies, especially oil and gas exploration, which account for a significant amount of outstanding corporate debt. That debt is unlikely to be serviced in the near term due to a prolonged fall in oil prices. Add the fluctuating stock market and political unrest and you have many worried.



There are varying opinions, of course. Goldman Sachs says the U.S. economy is less prone to recession than it has been in the past, "thanks to a confluence of factors that have emerged during the 'Great Moderation.' The term refers to the controlled growth with less volatility that has prevailed through much of the period since the mid-1980s, with some notable exceptions."

We were curious so we asked a question in this year's Compensation Best Practices survey about recession planning. Of the organizations that responded, 21 percent have some sort of recession plan in place. The recession planning activities include investing in technology to reduce staff needs, tightening variable spending, delaying capital projects and creating a "plan B" budget with a 20 percent reduction and limited increases to staffing levels.

No matter what happens, organizations need to have plans in place to attract and retain the best employees in today's volatile market. Organizations are encouraged to be proactive with their retention activities to guard against the possibility of things taking a turn for the worse. Make sure you are recognizing who your top performers are and are compensating them accordingly. Practice transparency and communication with employees - this increases the positivity and legitimacy of your pay brand so you'll be able to retain and motivate the best of the best.

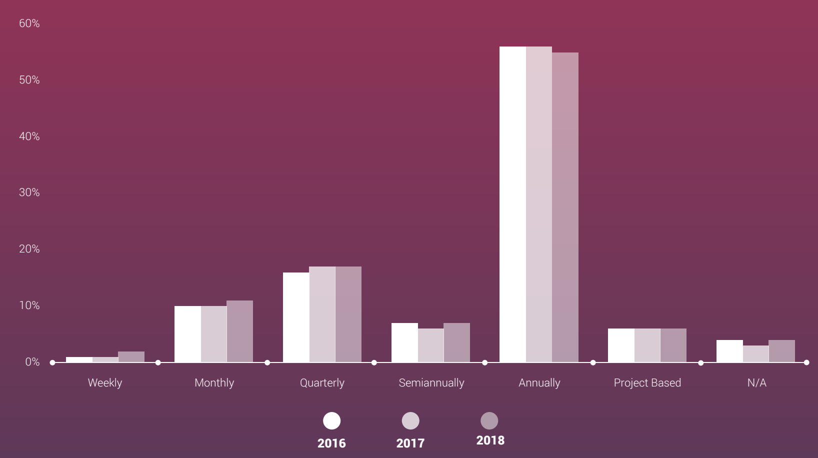
CHAPTER 2: THE ROLE OF VARIABLE PAY

Done right, variable pay has the benefit of increasing the return on your compensation investment. A well-defined variable pay plan pays when people, teams and/or the organization succeed.

Similar to the past two years, the majority of organizations in 2018 provided some form of variable pay (73 percent). The use of variable pay is even more prevalent for top-performing companies (83 percent for top performers versus 73 percent of the typical company). Variable pay is used more often by larger organizations than smaller organizations (82 percent of large organizations offered variable pay versus 66 percent of small organizations.)

In 2018, roughly 55 percent of all surveyed organizations were paying out bonuses on an annual basis, which is consistent with the trend we saw in the last two years. Meanwhile, a number of organizations gave out variable pay on a quarterly basis (17 percent) or even a monthly (11 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; 30 percent of Food, 28 percent of Retail and 24 percent of Technology sector organizations report paying out bonuses or incentives on a quarterly basis.

TYPES OF BONUS OR VARIABLE PAY

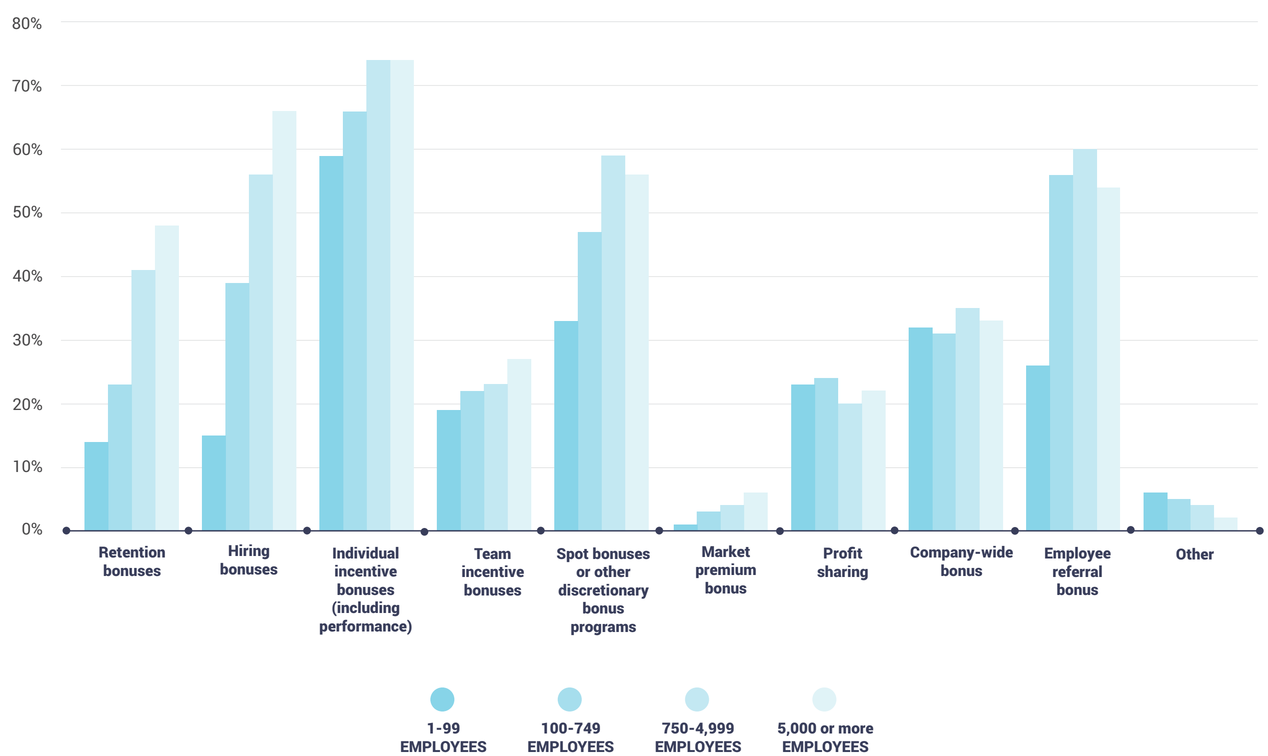
There are many forms of variable pay which organizations use to properly reward, incentivize and motivate their talent. By far, the most typical form of variable pay is the individual incentive bonus (66 percent). The employee referral bonus and the spot bonus tied for second place at 45 percent. Hiring bonuses come in third at 36 percent, reflecting organizations' need to bring in talent.

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

Enterprise organizations (those with more than 5,000 employees) are far more likely than small ones (those with less than 100 employees) to use all kinds of incentives. Enterprise organizations are more likely to use individual incentive bonuses (74 percent versus 59 percent), spot bonuses (56 percent versus 33 percent), retention bonuses (48 percent versus 14 percent for small), hiring bonuses (66 percent versus 15 percent) and the employee referral bonus (54 percent versus 26 percent).

In general more organizations are relying on variable compensation to drive the kinds of behaviors they want to see among their employees, whether it's staying, performing, or referring new potential employees. Relying on variable comp is advantageous to organizations because it doesn't incur ongoing costs and provides another lever when they can't increase their annual merit budget.

BONUS TYPE BY ORGANIZATION SIZE



BUDGETING FOR VARIABLE PAY

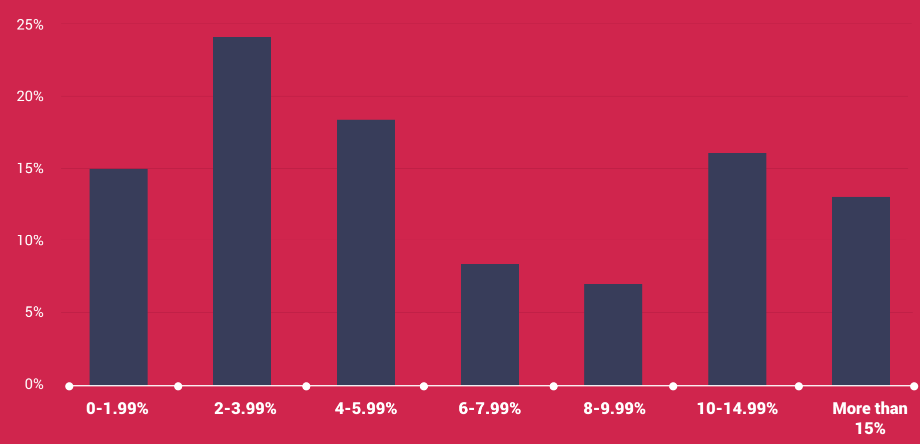
In 2018, the majority of organizations (71 percent) have a budget dedicated to bonus or incentive payouts. The largest organizations are more likely to have a budget for variable pay than the smallest organizations (76 percent of enterprise versus 70 percent of small), and they're more likely to set aside a larger portion of their total comp budget for incentive payouts.

Having a budget for variable pay shows your commitment to rewarding good performance. Having no budget for variable pay doesn't necessarily preclude paying out cash contingent on performance, but it does send a different message. Whether you budget for variable pay will depend on your circumstances, such as how strictly you adhere to your budget.

The amount which organizations allocate to incentive pay is all over the map. Of those that do budget for incentive pay, 24 percent of organizations allocate between 2 and 3.99 percent of their total org's salary budget to incentive pay. Eighteen percent of organizations say they budget between 4 and 5.99 percent; 16 percent of organizations say they budget between 10 and 14.99 percent, and another 13 percent of organizations allocate more than 15 percent of their total salary budget to variable comp.

This year, we also asked organizations how their bonus or incentive budget will change in 2019 relative to 2018. Just over half (54 percent) of organizations said that their budget will not change. However, we see that there are more organizations that expect their 2019 budget to increase (15 percent) than to decrease (11 percent). Organizations are realizing that they may need to spend more cash in order to keep their existing employees on board in this tight job market.

BUDGET FOR BONUS OR INCENTIVE PAY



ORGANIZATIONS LEAN INTO BENEFITS AND PERKS TO ATTRACT AND RETAIN EMPLOYEES

Rounding out the total rewards benefit package, it seems that the typical benefits and perks offered by organizations haven't significantly changed from prior years. Organizations are still relying heavily on employer paid medical, dental, and vision (77 percent) as well as 401K/401Bs. At a time when the cost of healthcare continues to rise and many workers are stressed out about their finances, these choices make sense.

Although organizations still rely on employer-paid health insurance and retirement plans, they're also expanding beyond these staples in their quest to retain employees. For example, many organizations are starting to embrace work-life balance; 44 percent of organizations allow remote work (up from 39 percent last year), 37 percent offer flextime, 32 percent offer paid family leave (up from 29 percent last year) and 10 percent offer a four-day work week.

Additionally, we saw accrued or granted PTO and sick leave gaining popularity among North American workplaces over the past couple of years. Although the number of organizations offering unlimited PTO is still relatively low, its prevalence has nearly doubled in the last two years (9 percent in 2018 versus 5 percent in 2016).

For the next year, organizations plan to offer benefits that enhance employees' financial, physical, and emotional/social well-being. Some new benefits organizations plan to offer in 2019 include paid family leave (19 percent), education or tuition reimbursement (26 percent), flextime (24 percent) and paid/reimbursed vacation (11 percent).

Regardless of what most organizations are doing, in order to pick the benefits that will work for your organization, you'll need to have a pulse on your employees. Outline the biggest needs your employees have and use those needs to guide and evaluate the experience your organization is offering.

BENEFITS ORGS OFFERED IN 2018

Employer-paid medical, dental, vision, etc	77%	Gym membership or reimbursement	23%
403b or 401k (or other retirement contributions)	72%	Transportation allowance	16%
Accrued or granted PTO	60%	Pension	14%
Accrued or granted sick	48%	Equity	13%
Education or tuition reimbursement	45%	4-day work week	10%
Remote work	44%	Unlimited PTO	9%
Accrued or granted vacation	44%	Unpaid sabbatical	6%
Flex-time	37%	Communiting allowance	6%
Paid family leave	32%	Paid sabbatical	4%
Tuition reimbursement	30%	Commute time	3%
Paid vacation (reimbursed)	23%	Paid childcare	2%

NEW BENEFITS ORGS PLAN TO OFFER IN 2019

Employer-paid medical, dental, vision, etc	44%	Paid vacation (reimbursed)	11%
403b or 401k (or other retirement contributions)	41%	Equity	9%
Accrued or granted PTO	33%	4-day work week	9%
Education or tuition reimbursement	26%	Pension	9%
Remote work	26%	Transportation allowance	9%
Flex-time	24%	Unlimited PTO	8%
Accrued or granted vacation	22%	Unpaid sabbatical	5%
Accrued or granted sick	22%	Communiting allowance	4%
Paid family leave	19%	Commute time	3%
Tuition reimbursement	17%	Paid sabbatical	3%
Gym membership or reimbursement	17%	Paid childcare	2%

PERFORMANCE AND PAY

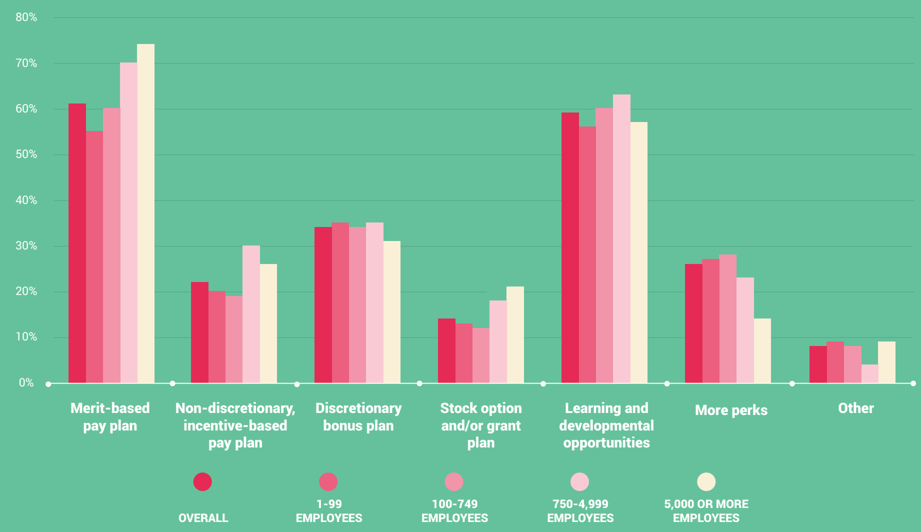
One final consideration for variable pay has to do with how organizations decide to reward their high-performing employees. While many do so with cash by giving larger pay increases to those with better performance, base pay is just one tool among many.

In 2018, organizations are rewarding top-performing employees in a variety of ways, including bigger base pay increases (58 percent, up from 54 percent last year), promotions (48 percent), career development (35 percent), informal bonuses or incentives (34%) and awards/recognition programs (31 percent, up from 29 percent last year).

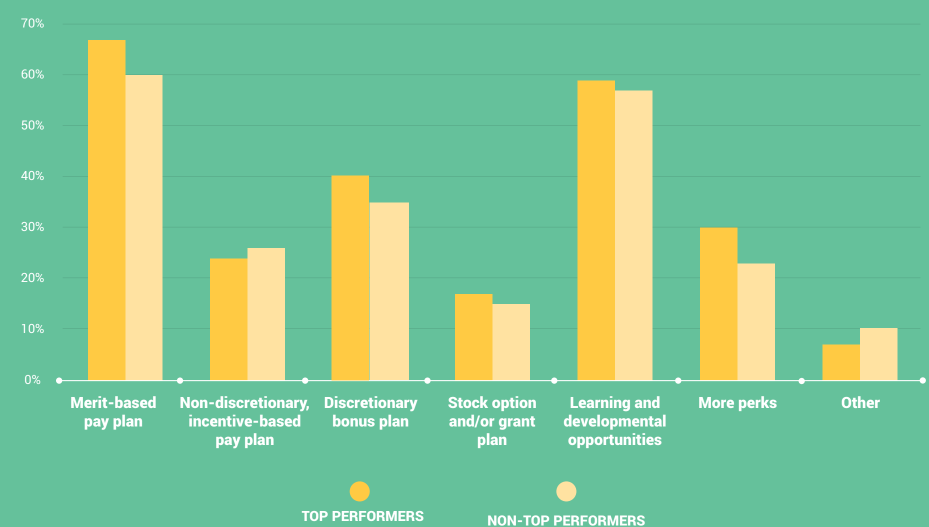
We also asked organizations to tell us what they plan to do to help recruit and retain high-performing employees in 2019. The majority of organizations (61 percent) plan to use a merit-based pay plan — this tactic is more prevalent for top-performing organizations (67 percent) as well as for enterprise organizations (74 percent). Providing learning and development opportunities is a close second (59 percent), and using a discretionary bonus plan came in third (34 percent).

Interestingly, top-performing organizations are more likely to use most of these tactics to recruit and retain high-performing employees. However, top companies are less likely to use non-discretionary, incentive-based pay plans. In other words, top companies are more likely to send the message to employees that bonuses aren't guaranteed -- they need to be earned.

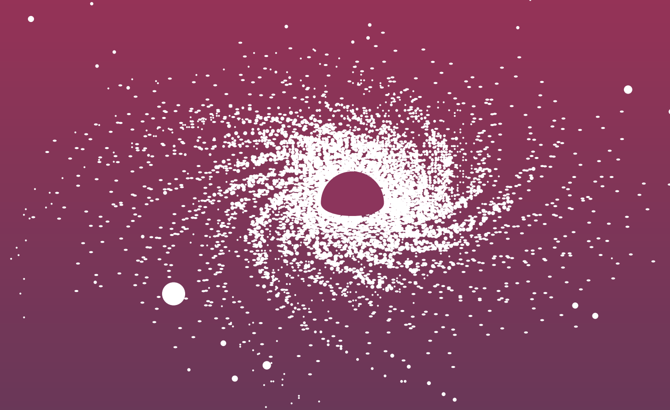
TACTICS USED TO RECRUIT AND RETAIN HIGH-PERFORMING EMPLOYEES BY ORG SIZE



TACTICS TO HELP RECRUIT AND RETAIN HIGH-PERFORMING EMPLOYEES IN 2019



CHAPTER 3: THE CORPORATE CHASM



PayScale is in the 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.

Some of the results we see this year mirror those from last year. In 2018, the gap remains fairly substantial in the areas of fair pay and pay transparency. Only 22 percent of employees agree with the statement that they're being fairly paid (versus 42 percent of employers).

Meanwhile, both groups feel that the way in which pay is determined at their organization is far from transparent. Only 24 percent of employees and 27 percent of employers agreed or strongly agreed with the statement, "How pay is determined at my organization is a transparent process."

CORPORATE CHASM

	EMPLOYERS AGREE OR STRONGLY AGREE	EMPLOYEES AGREE OR STRONGLY AGREE
There is frequent, two-way communication between managers and employees.	60%	56%
Employees at my organization feel they are paid fairly.	42%	22%
How pay is determined at my organization is a transparent process.	27%	24%
Employees at my organization have a great relationship with their direct managers.	57%	68%
Interactions at my organization tend to be positive and productive.	66%	51%
Employees at my organization are trusted to decide how to do their own work.	60%	81%

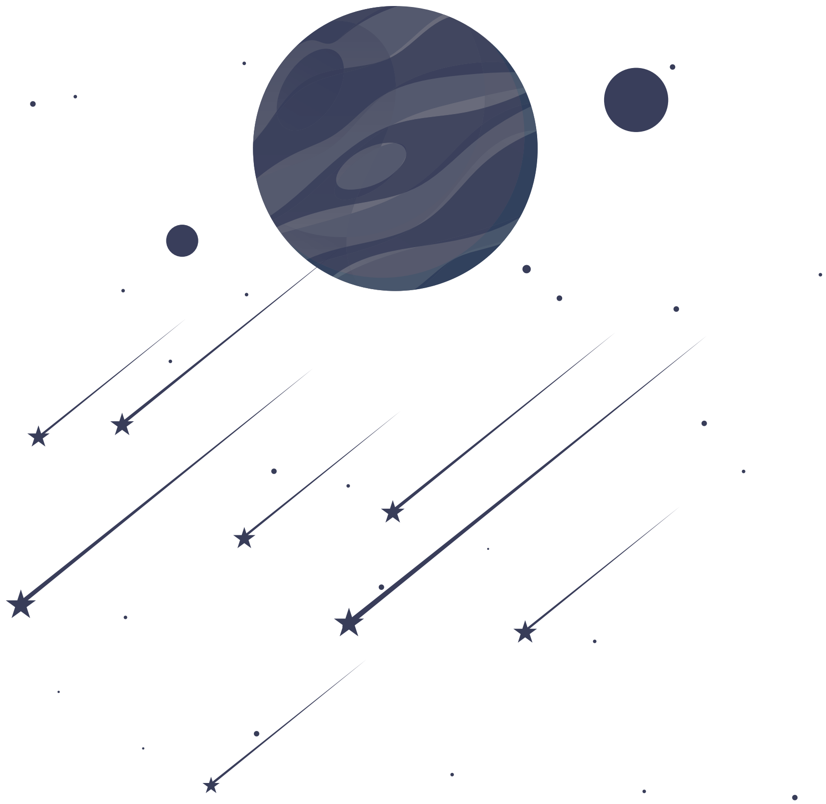
In our last CBPR, we learned that workers are less likely to feel that interactions are positive and productive at work. The trend is the same this year: Fifty-one percent of employees agree or strongly agree that interactions at their organization are positive and productive (versus 66 percent of employers who express the same sentiment). That being said, managers don't seem to be the issue — 68 percent of employees said that they have a great relationship with their managers (versus 57 percent of employers who agreed that employee-manager relationships are solid). Additionally, it seems that most employees are happy with the level of autonomy they have at work (81 percent agree or strongly agree that they're trusted to decide how to do their own work).

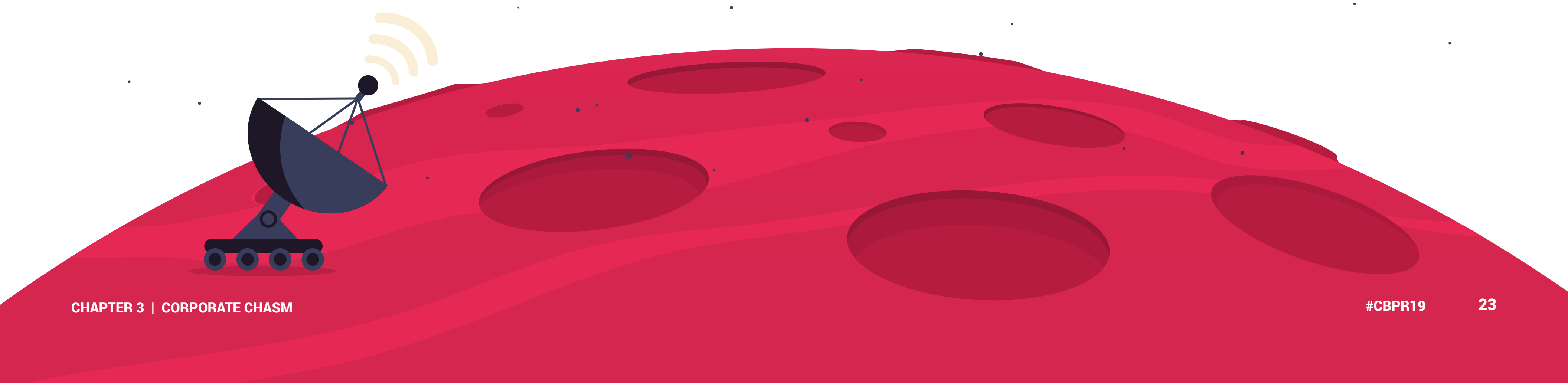
PAY BRAND

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 how your employees would describe your organization's pay philosophy and practices to their friends and family.

In order to develop a strong pay brand, you'll want to be clear about what you pay, how you pay, and why you pay the way you do. It's also about being strategic in how you communicate pay decisions with employees. When employees understand how pay decisions are made, they're more likely to believe they're fairly paid. We've learned that the way people feel about their pay is tightly linked to their level of engagement and satisfaction at work.





ALIGNING YOUR PAY PRACTICES TO YOUR COMPANY VALUES

Crafting a pay brand is not about creating clever messaging or sprucing up your "About" page on your website. It's about aligning your pay practices to the values you've set forth as central to who you are as an organization. For example, if transparency is a value for your organization, how do you breathe life into that value through your pay practices? Do you share pay ranges with employees? Or, if you value innovation, how could you incentivize employees to be more innovative through your comp plan?

Glitch (formerly known as Fog Creek Software) is a company that values transparency. In 2018, they decided to share each position's salary range with their employees. Here's how Anil Dash — their CEO — rationalized this decision and connected it back to their cultural values in a Medium article:

"We talk a lot about how everybody at the company should spend the company's money as if it were their own. To do that right, we have to give everybody enough information to know what our people cost."

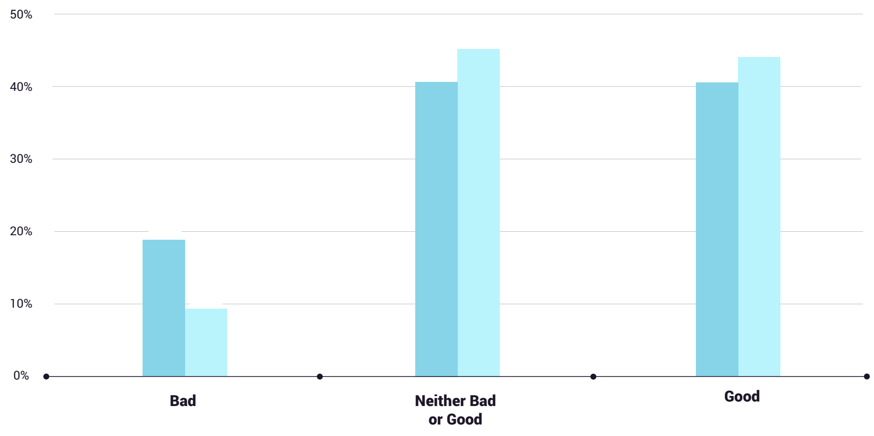
Salesforce is another company that's making a good-faith effort to practice what they preach. Salesforce has a value around equality. To champion equality, Salesforce is committed to equal pay for equal work. The company continually assesses for pay equity across their entire organization, and to date, has spent $8.7 million to adjust salaries for 30,000 global employees to address statistical differences in pay. Additionally, CEO Marc Benioff has ignited an industry conversation and called for CEO accountability in closing the gender wage gap. By taking a stand on equal pay, Salesforce has created a distinguished pay brand, improved its reputation and consistently ranks at the top of various "best companies to work for" lists.

We think this quote from Anil Dash sums it up well, **"Being true to your values can be a competitive advantage for attracting and retaining great people."**

HOW ORGANIZATIONS PERCEIVE THEIR PAY BRAND

This year, we asked organizations to self-evaluate their current pay brand (or pay perception) among their employees and job candidates. A significant portion of organizations said that their pay brand among their employees was good or very good (40 percent). Meanwhile, another equally sized group said their pay brand is neither good nor bad. Data shows many employers have an opportunity to strengthen their pay brand.

HOW ORGS WOULD SELF-ASSESS THEIR PAY BRAND BY AUDIENCE



We also asked people to describe their organization's pay brand in their own words. Based on the answers, it's clear that building a great pay brand is a challenge.

The answers were all over the spectrum. Some said that their organization's pay practices are in line with the market. Others mentioned that they don't have a pay brand yet or emphasized a desire to improve pay transparency. Only a couple of respondents mentioned that their employees are very content with their pay.

Some respondents talked about the challenges they face when it comes to creating a solid pay brand. One respondent noted that their organization has different pay brands in different business units; members of some units feel content with their pay rate and other units feel very behind the market. Others talked about the tension between the comp team and management as the organization enters a phase of rapid growth: "We're in the middle of a growth time. Management still wants to pay like they are a Mom and Pop and that does not work with the current market and the level of people we need for the future."

FAIRNESS AND PAY EQUITY

In the past year, we saw multiple well-known brands suffer reputational losses when their employees and/or regulators exposed their biased pay/hiring/promotion practices. Employees at Google and Nike organized public protests and even filed lawsuits against their respective employers for allegedly unfair pay practices and discriminatory policies. In a recent legal filing by the Department of Labor, attorneys alleged Oracle shorted women and minority workers $400 million in wages by paying them less than other employees and steering them into lower-level positions.

In today's climate, organizations need to proactively examine their pay practices and root out systemic biases.

% OF ORGANIZATIONS WHO PLAN TO PERFORM A PAY EQUITY ANALYSIS

Conducting a gender/racial pay equity audit is a good starting point. But organizations seeking to be workplace innovators should take additional steps to close the opportunity gap between women and minorities versus other employees.

In PayScale's latest Gender Pay Gap study, we saw that women make less than men largely because women face an "opportunity gap": men are far more likely than women to be promoted into managerial/leadership roles as workers progress in their careers. There's a wealth of research showing that workers who land stretch assignments are far more likely to get a raise and advance. Yet, most women don't feel their employers make it easy to gauge if they are ready for a promotion, while most men think their employers help them to know whether they are prepared to advance

If your organization is serious about creating a diverse and inclusive workplace, you'll want to evaluate your workplace to see if there are significant deltas in promotion rates, raise frequencies/amounts, and/or bonus eligibility for similar employees doing similar work. You may also want to re-evaluate your recruiting efforts, hiring processes, double down on unconscious bias training and focus on bringing underrepresented candidates into executive positions.

COMMUNICATION AND PAY TRANSPARENCY

Even if you do all the work to create a fair compensation system, none of it matters if your employees aren't aware of your effort. Talking to employees about how you make pay decisions is the best way to improve engagement and narrow the corporate chasm. Two years ago, we introduced the Pay Transparency Spectrum to help employers make necessary decisions about the types of information they want to share and how.

Year over year, we have not seen much progress on the pay transparency front. In 2018, 46 percent of all organizations are still at level one, while just 31 percent of all orgs are at a level three or above. These stats are nearly identical to the stats from last year.

In 2019, organizations aspire to move up the pay transparency spectrum: 28 percent of all organizations plan to reach level three; 23 percent plan to move to level four and 8 percent aspire to reach level five.

PAY TRANSPARENCY SPECTRUM

	WHAT	HOW	WHERE	WHY	WHOA!
	1. Your organization tells employees when and what to expect on their paycheck	2. Your organization shares some market data with employees	3. Your organization has a comp plan and shares pay ranges with individual employees	4. Your organization's comp plan reflects org culture, drives talent strategy, and is open to EEs	5. Ranges and employee pay information is available to all employees
CURRENT PAY TRANSPARENCY	46%	23%	18%	7%	5%
DESIRED PAY TRANSPARENCY	222%	19%	28%	23%	8%

WHAT ORGANIZATIONS CAN DO TO FOSTER GREATER TRANSPARENCY

One meaningful step you can take is to simplify and streamline your salary structure. In the past, many organizations have used pay grades (or grade-based pay ranges) to manage employee pay at scale. The grades, or levels, offered a useful framework to make sense of the relative importance of all the jobs, and to rationalize the salary when market data doesn't exist for a position. Yet, this salary structure doesn't hold up as well in an age when data are abundant and employees desire greater transparency. The determination of grades and how jobs are slotted can feel arbitrary and unfair to employees.

In 2018, 17 percent of surveyed organizations switched from using pay grades to setting ranges for each position. Why did they make this change? One reason is to facilitate better pay communication with employees. Of those that made the switch, 11 percent say the main reason is to make it easier for employees to understand how they're being paid.

Other good ways to improve communication with employees include sharing your compensation strategy, the pay ranges for their positions and where they fall within range. When you're open about these matters, you send employees the message, "we care about getting pay right, and this is competitive pay for your role." You effectively tell employees that you want them to have a future within your organization.

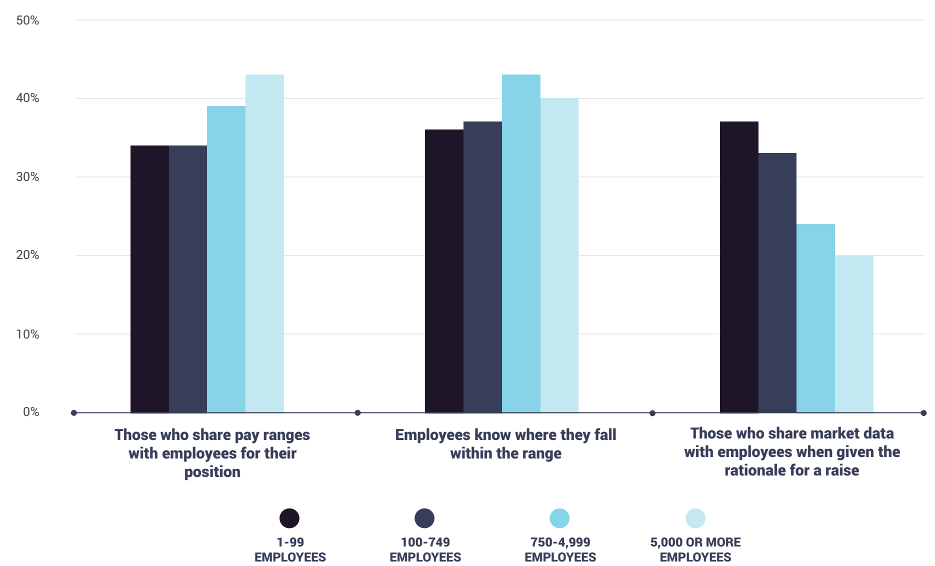
This year, we also asked several new questions to understand what organizations actually communicate to their employees. It turns out, most organizations aren't sharing much.

Just 31 percent of organizations have developed a formal compensation philosophy/strategy and are sharing it with their employees. Thirty-nine percent are working on one, while another 23 percent of organizations do not have a formal compensation strategy/philosophy.

In 2018, 36 percent of employers report they share pay ranges with their employees for their position. The largest organizations are more likely to share pay ranges (43 percent) than smaller organizations (34 percent). This is likely because larger organizations are more likely to have well-defined salary ranges than smaller ones.

Additionally, 38 percent of employers report their employees know where they fall within the range. When employers give raises, just 32 percent share market data with their employees. Interestingly, smaller organizations are more likely to share market data with their employees (37 percent) than the largest ones (20 percent).

PAY TRANSPARENCY ACTIONS BY COMPANY SIZE

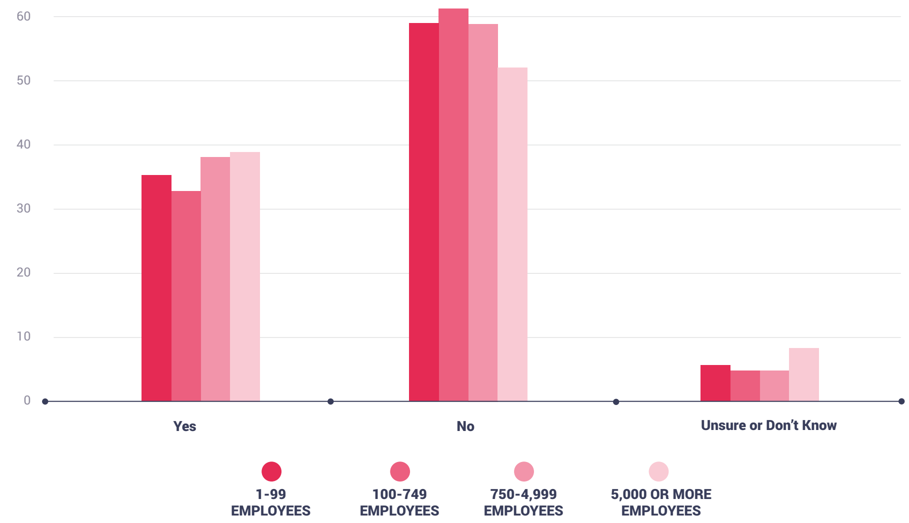


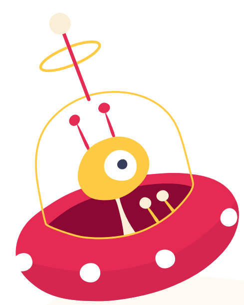
Lastly, we asked organizations if they share pay ranges with prospective employees. Thirty-two percent of organizations never share pay ranges with prospective employees. Seventeen percent share the range during the initial phone screen, 18 percent do so during an onsite interview and 20 percent share the range once the offer is provided.

Another way to demonstrate that you value open communication is to share total compensation statements with employees. A total compensation statement outlines all of an employee's rewards (salary, bonuses, equity, health insurance, etc.) and often applies a monetary value to non-cash items. In 2018, 36 percent of organizations provided this kind of statement to employees. This trend has not changed year-over-year. However, top-performing organizations are far more likely to provide one than typical performers (43 percent versus 36 percent).

Giving employees so much salary information can feel scary. One common concern is employees may compare total compensation statements with their peers and not be happy with what they discover. While this is a valid concern for organizations, it's also beneficial to support your employees exchanging salary information — because open discussions help root out pay equity issues. Another concern for HR professionals is that employees may misinterpret the numbers. For this reason, it's best to ask your people managers to walk through the reports with their employees.

TOTAL COMPENSATION STATEMENTS PROVIDED TO EMPLOYEES BY ORG SIZE



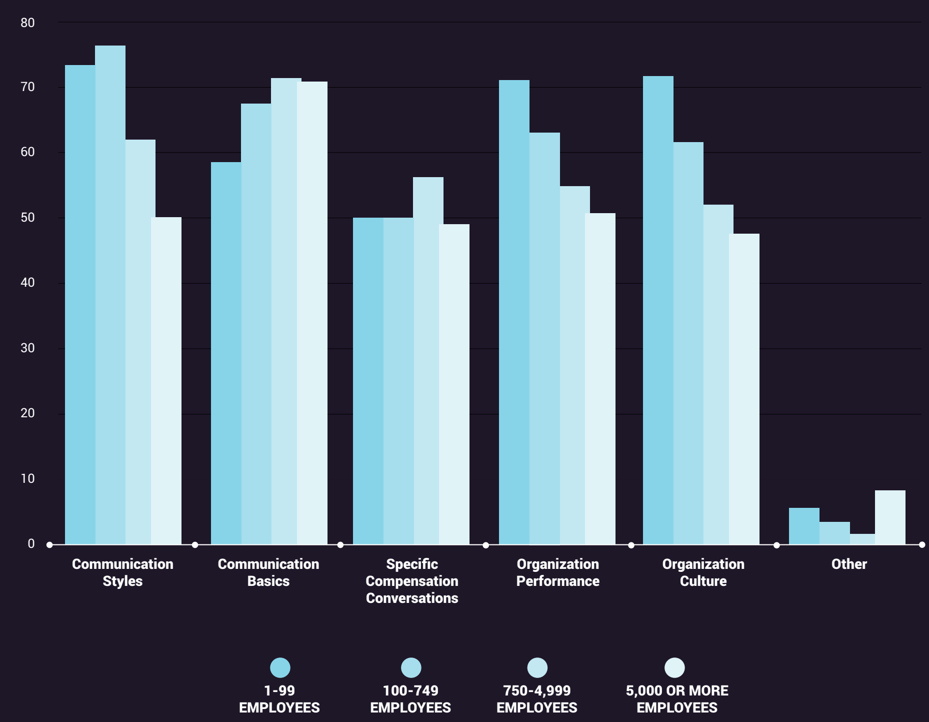


MANAGER TRUST

In order to share total compensation statements with employees, you have to trust your managers to have these conversations effectively. Yet, we see HR's trust in managers' ability to have pay conversations is still low. Similar to last year, we find that most organizations don't trust their managers to talk about pay: only 15 percent of organizations are very confident in their managers' abilities to explain the rationale behind pay decisions.

Meanwhile, most organizations do not train managers on how to talk to employees about compensation (60 percent of organizations do not provide compensation training to managers). And even when organizations do train managers, just half train managers on how to have specific compensation conversations. There's an opportunity here for organizations to train managers on how to have difficult pay conversations. After all, remember, 78 percent of functional managers/directors are communicating employee pay decisions.

TRAINING TOPICS FOR MANAGERS BY ORG SIZE



TRAINING AND EMPLOYEE DEVELOPMENT

One of the most common reasons for attrition is a lack of professional advancement opportunities. Many workers today — especially younger ones — are hungry to grow and they expect their employers to provide them with constant learning and growth opportunities. In 2019, organizations see training and development as their biggest investment area within HR. In fact, 23 percent of all respondents chose training over the other areas such as retention (8 percent), recruiting (15 percent), compensation changes (15 percent), benefits (10 percent), HR software (11 percent), engagement of employees (8 percent) and managing performance (6 percent).

How can you help your employees develop? You can start to articulate clearer career paths for your talent. Work with your managers to understand the current skills their team members have versus which skills are lacking. Then, create a plan to fill in those skill gaps through courses, coaching, ongoing feedback and providing employees with stretch assignments.

When employees can see a future for themselves within your organization and know what to do to get to the next level, they're much more motivated to do their best work. In 2018, 57 percent of organizations reported that their employees know how to get to the next level of their career.

What if you don't have the budget to pay someone once they reach the next level? This scenario is far from uncommon. Most organizations in this situation opt to pay for career development/training and/or conference attendance instead (36 percent). Others choose to increase the employee's annual bonus (16 percent), grant a spot bonus (13 percent) or provide extra perks such as more vacation days (12 percent).

At at time when the job market favors employees, workers seek out organizations which are eager to help them gain new skills and accelerate their careers.

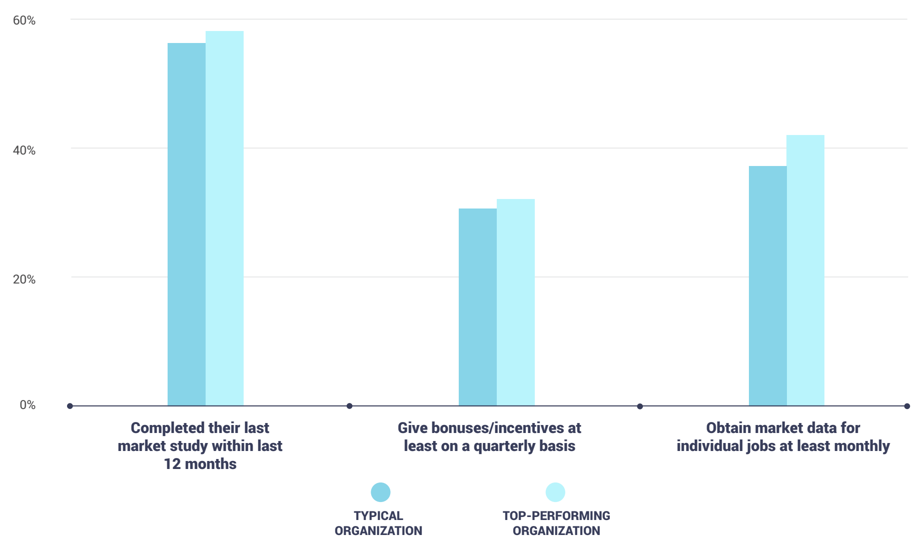
CHAPTER 4: THE COMP PRACTICES OF TOP-PERFORMING ORGANIZATIONS

Top-performing organizations are defined as those that are number one in their industry and who exceeded their revenue goals in 2018. 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.

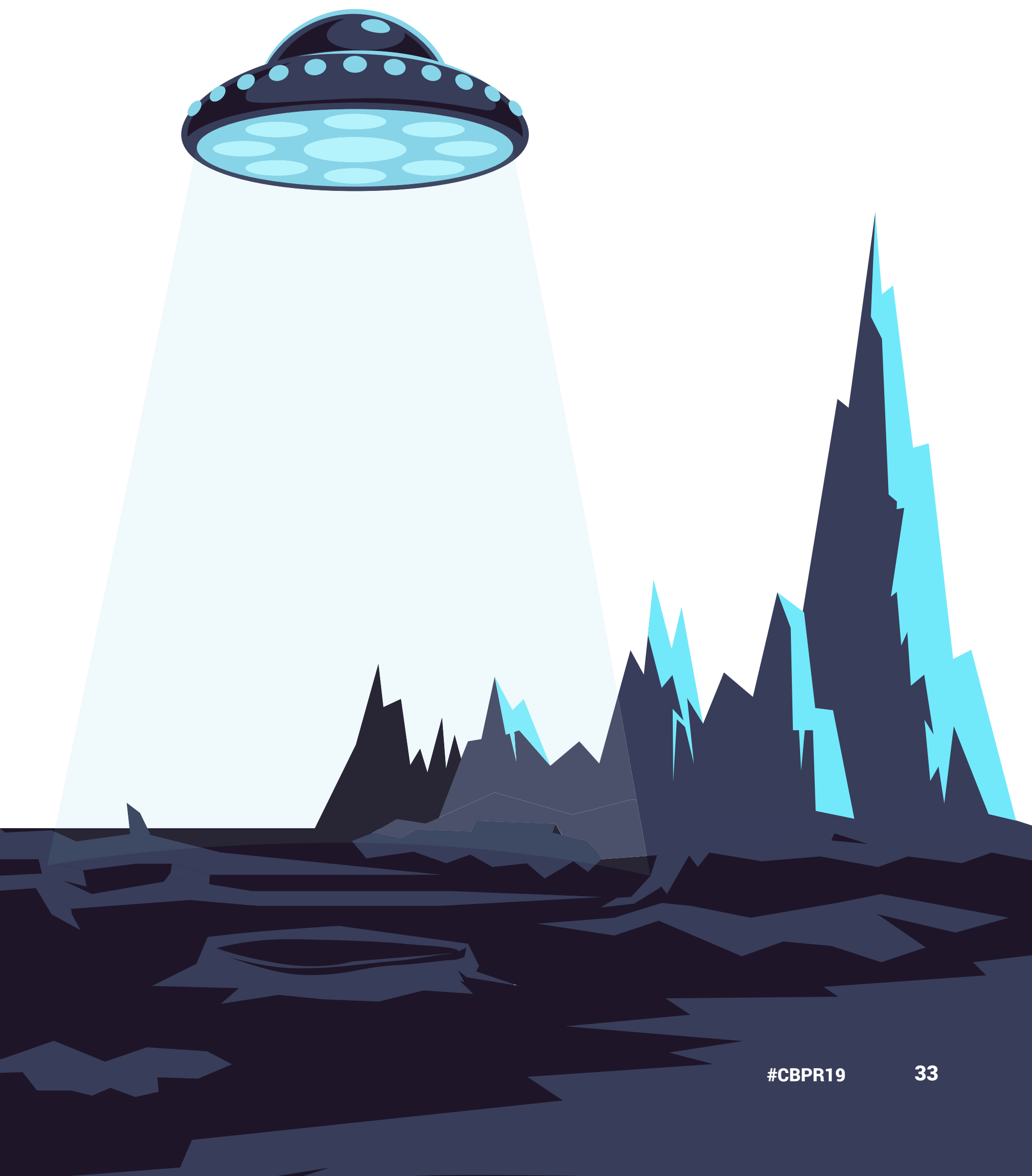
PAY SHOULD BE A YEAR-ROUND CONVERSATION

Top-performing organizations tend to consider pay to be an ongoing dialogue with employees, not an annual event that comes and goes. Top performing organizations complete market studies more frequently (58 percent of top-performing organizations have completed a market study within the past year vs. 53 percent of typical), give bonuses and incentive pay to employees more frequently (34 percent of top-performing organizations give bonuses or incentives at least quarterly vs. 30 percent of typical), and obtain market data for individual jobs more frequently (42 percent of top-performing organizations get market data for individual jobs at least monthly vs. 34 percent of typical).

HOW TOP-PERFORMING ORGANIZATIONS APPROACH PAY



While top-performing organizations are on top of their pay practices, that doesn't mean they adjust their ranges more often than typical organizations: many top-performing organizations adjust ranges annually (68 percent of top-performing organizations shifted ranges within the past year vs. 58 percent of typical).



BUILD PAY BRAND WITH VALUES AND CULTURE IN MIND

Top-performing organizations are also more likely to connect the dots between compensation and culture. Their company values are reflected in their compensation strategy. Step one is being purposeful about how they spend their compensation budgets. These organizations are more likely to have a formal compensation strategy (33 percent versus 27 percent of typical). In practice, this means:

Top-performing organizations are more likely to pay more for competitive jobs.
Only 19 percent of top-performing organizations do not complete full market studies. They are also more likely to let the data drive higher pay for competitive jobs (58 percent vs. 51 percent of typical).

Top-performing organizations give base pay increases.
Eighty-six percent of top-performing organizations gave increases in 2018 (vs. 81 percent of typical). They also budgeted higher increases: 35 percent of top-performing organizations budgeted higher than 3 percent raises (vs. 30 percent of typical).

Top-performing organizations are also more likely to use variable pay.
Eighty- three percent of top-performing organizations were likely to use variable pay in 2018 (vs 73 percent of typical).

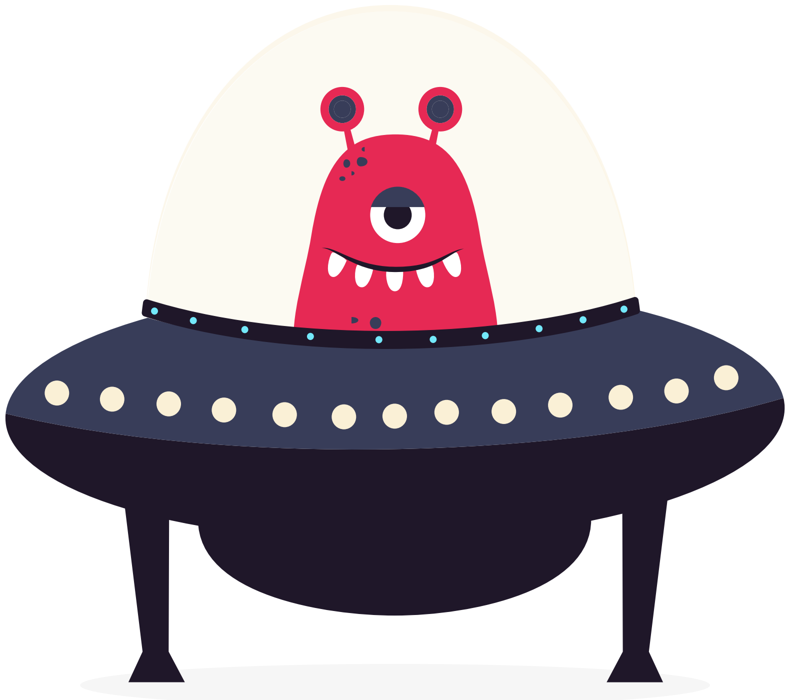
Top-performing organizations are likely to use a greater variety of tactics in order to reward high performers.
Sixty-four percent of top-performing organizations use bigger base pay increases (versus 58 percent of typical). Fifty-four percent of top performers use promotions (versus 48 percent of typical) and 38 percent of top performers use career development (versus 35 percent of typical).

CRUCIAL CONVERSATIONS

Engagement: Top-performing organizations get a pulse on employee engagement a bit more frequently (19 percent use ongoing or real-time surveys to measure employee engagement, vs. 17 percent of typical).

Development: Top-performing and typical organizations have plans to develop their staff: 59 percent of both top-performing and typical organizations offer learning and development to recruit and retain high-performers.

COMPversations: Top-performing organizations are somewhat confident (47 percent) or very confident (17 percent) in their manager's ability to have tough comp conversations about pay. Thirty-five percent of them offer manager training to teach managers how to talk to employees about compensation.



WHAT'S IN STORE FOR 2019

2019 starts out on uncertain footing; from the booming labor market to the threat of recession. Smart organizations realize their compensation practices speak volumes about their culture, and they see comp as an essential portion of their strategic planning process.

FUTURE OUTLOOK

- **Most organizations plan to give increases in 2019 (85 percent).**
- **Thirty-one percent of organizations plan to continue the trend of a 3 percent average base pay increase.**
- **The majority of organizations predict that their bonus or incentive budgets will not change in 2019 (54 percent).**
- **Biggest HR investments in 2019 will be training and development, followed by recruiting and compensation changes.**
- **In 2019, organizations plan to use 17 percent more contractors than 2018 and expect a 27 percent increase in remote positions.**

BIGGEST PREDICTED CHALLENGES FOR 2019

We asked respondents to share their predictions for the biggest challenges HR will face in 2019. This year concerns about HR systems and data stood out.

- **Implementing new HRIS**
- **Gaining approval for new systems**
- **Gaining approvals to change compensation structure**
- **Balancing multiple HR challenges with deadlines**
- **Managing data of all kinds**
- **Lack of HR staff**

SURVEY METHODOLOGY

The 2019 Compensation Best Practices Survey gathered responses during November and December 2018. There were 7,030 respondents.

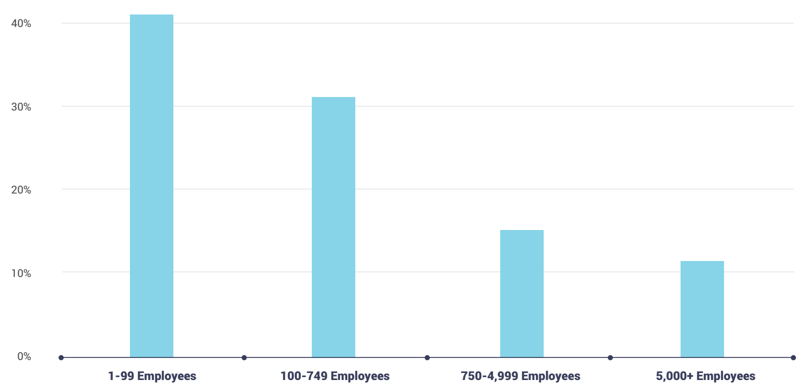
TOP-PERFORMING ORGANIZATIONS

Top-performing organizations are defined as those who are number one in their industry and exceed their revenue goals in 2018. Twenty-three percent of respondents fit these criteria.

ORGANIZATION SIZE

We defined four organizational sizes for comparison as follows: Small (1-99 employees), Mid (100-747 employees), Large (750-4,999 employees) and Enterprise (5,000 or more employees). Under half of the respondents reflect small organizations; around 1,400 respondents come from large and enterprise organizations

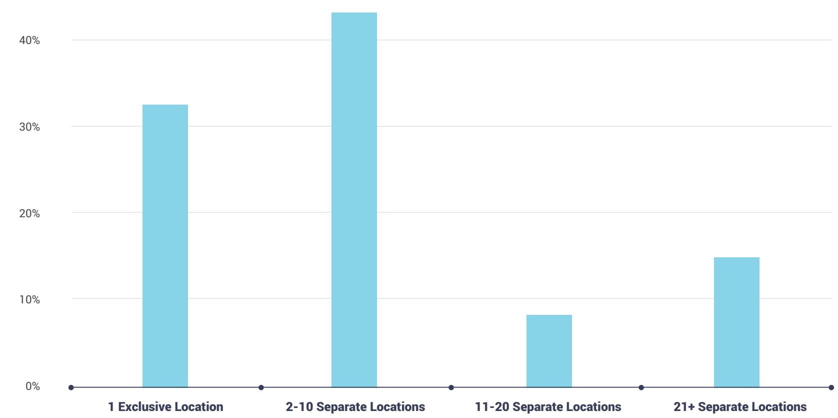
FULL-TIME EMPLOYEES ARE IN AN ORGANIZATION



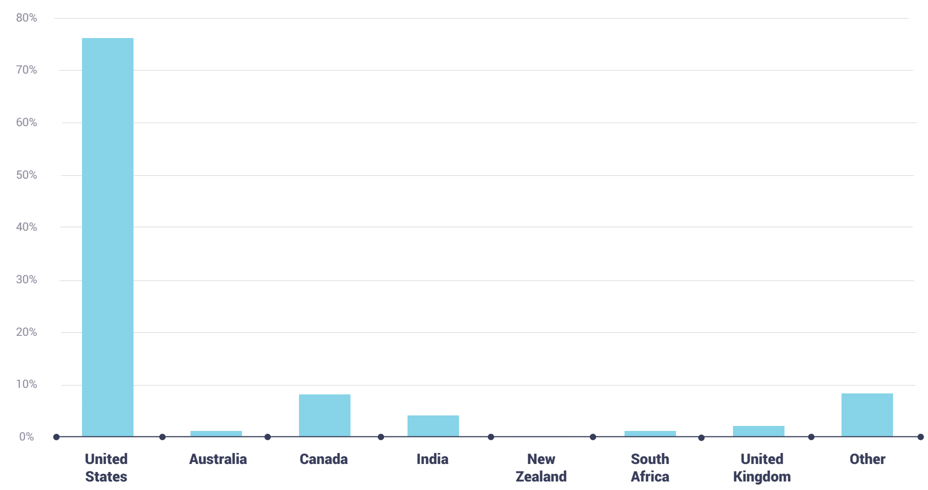
LOCATION

Respondents spanned the globe, including 5,433 respondents in the United States and 584 respondents in Canada. Organizations with both single and multiple locations were represented.

SEPARATE GEOGRAPHIC LOCATIONS ARE IN AN ORGANIZATION

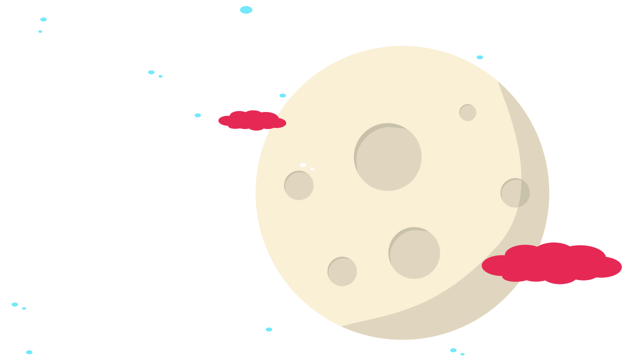


ORGANIZATION HEADQUARTERS



INDUSTRY AND ORGANIZATION TYPE

As in prior years, the top industries represented in the survey were Technology, Healthcare, Manufacturing and Nonprofit. In terms of organization type, most respondents were either from a public company, a private company or a nonprofit (86 percent), but we also have respondents from government (4 percent), schools (1 percent), colleges/universities (2 percent), hospitals (1 percent), cooperatives (1 percent) and trade associations (1 percent).

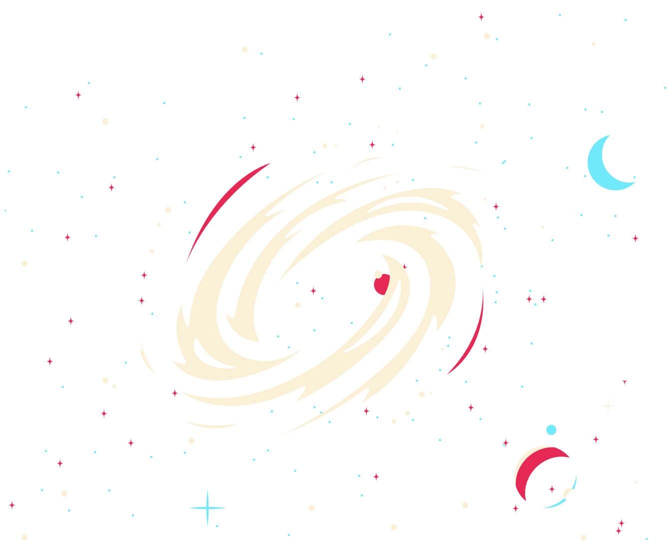


JOB LEVEL

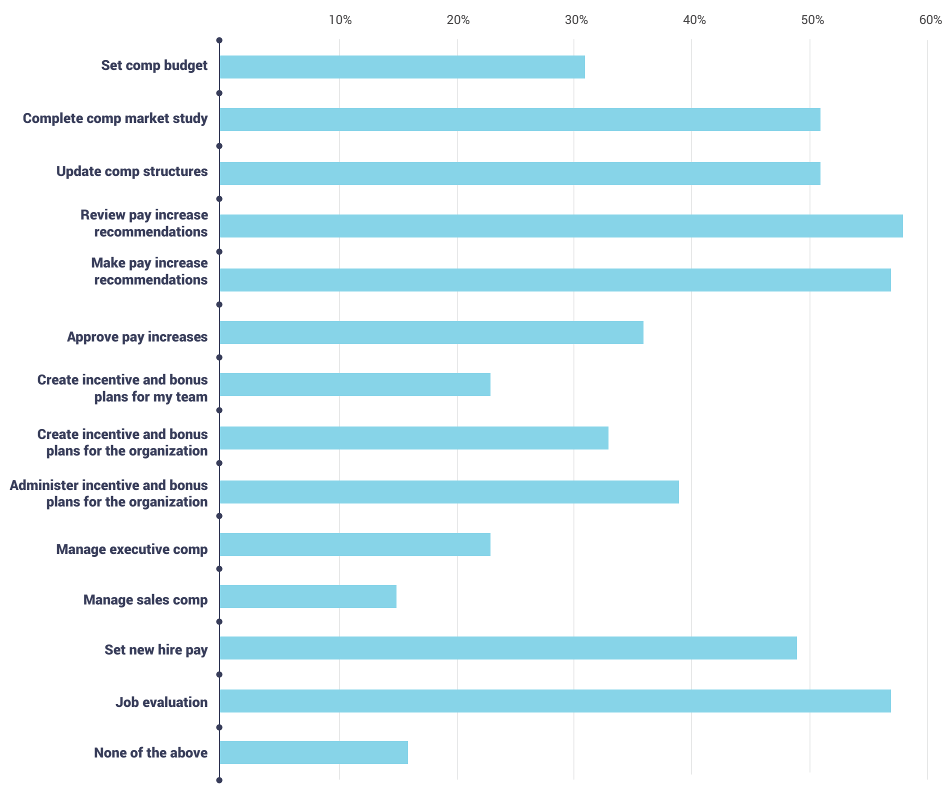
Most respondents identified at the Manager level (33 percent). Twenty-five percent identified as Individual Contributors, 23 percent identified as Directors, and 20 percent identified as Vice Presidents of C-level executives.

ROLES IN COMPENSATION

Our respondents play a variety of roles in the compensation process — ranging from setting comp budget (31 percent), to updating comp structures (51 percent), reviewing pay increase recommendations (59 percent), to setting new hire pay (49 percent) to job evaluation (57 percent).



ROLE(S) PLAYED IN COMPENSATION



ABOUT PAYSCALE

PayScale offers modern compensation software and the most precise, 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.

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