VISIER INSIGHTS™ REPORT

# NEW FACTS ABOUT PAY

A data-based approach to smart compensation decisions

As many U.S. employers have started to plan for higher salary budget increases this year,[1] it's critical they understand the greater role compensation plays as part of the employee experience. Compensation is only one of several predictors of employee retention,[2] yet it emerges as an increasingly important one. According to a study by Pew Research Center, 63% of employees resigned from their jobs due to low pay.[3]

Additionally, new pay transparency laws are welcomed by many employees,[4] but their implications for organizations are substantial.[5] Switching employers—as well as becoming a "boomerang employee"[6]—typically leads to employees' wage growth.[7] However, in a more transparent world, it's not just salary information that becomes available.

Pay inequities and wage compression effects come to the surface faster, too. This puts additional pressure on managers, who lack experience and have a limited ability to navigate complex conversations about pay. Our data suggests that more than a third of managers involved in compensation change processes are going through a cycle for the first, second, or third time at their current company.

## Pay transparency is welcomed by employees, and requires managers to navigate complex pay conversations.

To gain a better understanding of compensation trends, we set out to understand the following questions:

- Have organizations changed their compensation strategies over the years?
- How much of an employee's salary increase is—and isn't—enough to retain talent?
- What are potential side effects of pay transparency on wage compression within teams?

In an attempt to address some of the open questions around the implications of salary, pay increase, and their relation to talent retention, we analyzed salary records available in Visier Community Data. This report outlines our findings about pay change event trends of ~4M employees working in 97 enterprise sized organizations in the United States, Canada, and Europe between 2017-2022.

1 2023 looks to be a 'banner year' for salary increases. HR Executive, September 2022. Accessed 4/10/2023.
2 Toxic Culture Is Driving the Great Resignation, MIT Sloan Management Review, January 2022. Accessed 4/10/2023.
3 Majority of workers who quit a job in 2021 cite low pay, no opportunities for advancement, feeling disrespected. Pew Research Center, March 2022. Accessed 4/10/2023.
4 Pay Transparency: Should Salary Be a Secret? Visier Pulse Survey, 2022. Download link.
5 Pay-transparency laws do not work as advertised. The Economist, January 5th 2023. Accessed 4/10/2023.
6 Boomerang Employees Make a Comeback. Visier Research & Insights, 2022. Download link.
7 Wage Growth Tracker, The Federal Reserve Bank of Atlanta. atlantafed.org/chcs/wage-growth-tracker

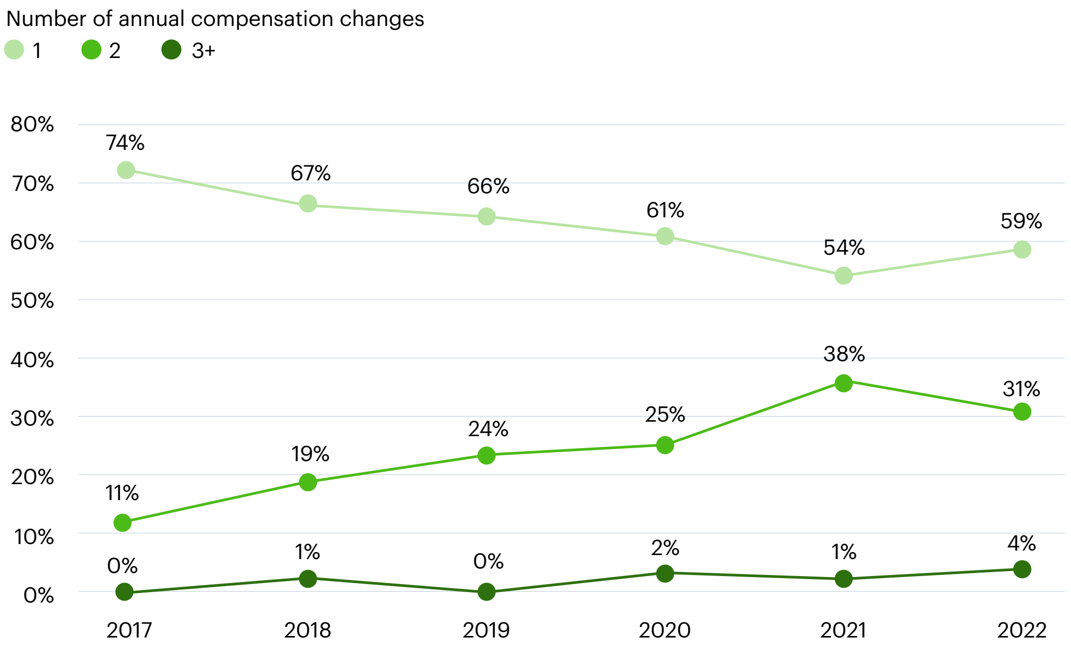
# Annual compensation changes increased in frequency

As we considered the time frame of pay change events across 2017 to 2022, we noticed the proportion of companies moving from one to two—or more—annual compensation changes[8] has increased.[9]

In 2021, for example, 38% of the organizations conducted two annual compensation changes (up from 25% in 2020 and 11% in 2017), and 2022 was the first year in which 4% of companies appeared to have conducted three or more annual compensation changes (Figure 1: Number of annual compensation changes).

**FIGURE 1: NUMBER OF ANNUAL COMPENSATION CHANGES**

Percentage of companies that have a number of annual compensation changes




Source: Research & Insights, Visier Inc. 2023

We also observed a seasonal regularity when it comes to pay changes, which held steady over the past six years. On average, 29% of employees experience a pay change event in or around March each year, and 20% in or around July each year,[10] with the remaining compensation change events at different points throughout the year.

8 To answer the question about the frequency of annual compensation changes, we first defined them as events in which the majority of employees experienced a percentage change of their budgeted base pay. Doing so allowed us to distinguish this collective type of annual compensation change from individual pay changes that may occur at any time throughout the year.

9 This analysis was based on percentage change calculations of pay changes of 4 million employees in 97 enterprise sized organizations from 2017-2022.

10 For the above analyses, we looked at the proportion of employees with a pay change event each month.

# The sweet spot for compensation and talent retention

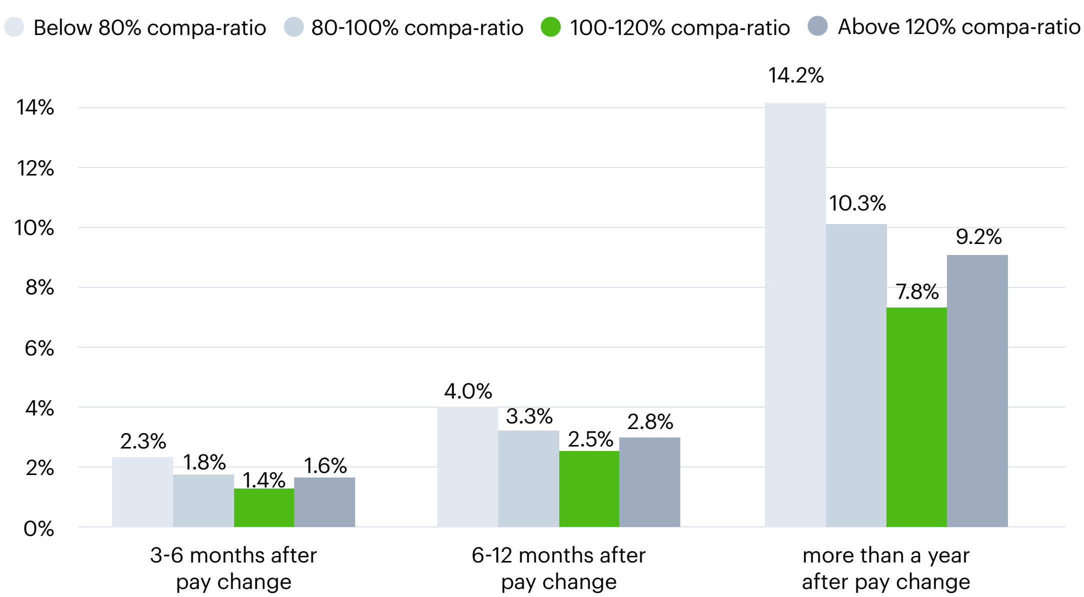
The second finding addresses the link between an employee's salary change, their compa-ratio, and their propensity to stay or leave an employer. Compa-ratio, expressed as a percentage, is a measure that compares the salary of an employee to the median pay for a similar position within the company or external market.[11] Compa-ratio should always form a basis for considerations during compensation decisions.

Analyses of employee resignation behaviors after a recent pay change[12] showed salary increases that keep base pay below 80 percent of an employees' compensation ratio is linked to relatively *high resignation rates*. On the flip side, however, employees whose pay increases placed them at or above 120 percent of the compensation ratio also showed higher resignation rates (Figure 2: Resignation rate post-pay change by compa-ratio).

Employees whose pay changes put them in a compa-ratio of 100-120 percent seems to hit a 'sweet spot' that is linked to a comparatively lower number of resignations.

> **The compensation sweet spot lies between the midpoint and 120% of compensation ratio.**

**FIGURE 2: RESIGNATION RATE POST-PAY CHANGE BY COMPA-RATIO**
Percentage of employees that resigned within each time window




Source: Research & Insights, Visier Inc. 2023

Across our sample, we identified 16% of employees with a base pay that fell below 80% of their compa-ratio, 24% in the "optimal" range for salaries between the midpoint and 120 percent of the compensation ratio, and 6% of employees whose salaries were at or beyond 120% compa-ratio.

11 Compa-ratio: Definition and how-to-guide. ADP, retrieved April 10th 2023.
12 This finding is based on an employee headcount sample of 4 million, and encompassed 23 million pay change events between 2017 and 2023.

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## A "Pay to Stay" study saved Providence millions of dollars

In 2020, Gary Russo, Executive Director of Workforce Intelligence at Providence, conducted an analysis to determine if raising pay could actually save his organization money.[13] This counterintuitive idea hinges on the costs of attrition.

Most people agree that higher pay reduces attrition: pay your staff more and they want to stay working for you. Right? But it's not so easy to find the sweet spot, says Gary. Attrition can be complicated, and giving out equal-sized pay bumps to everyone is an expensive gamble.

For his "Pay to Stay" study, Gary used a cost-of-turnover calculation he created to help Providence better understand its attrition-related costs. Gary focused on data about when people were hired, what part of the pay range they were in, and whether they exited within two years. Using the estimated costs of turnover and calculating the cost to adjust salaries in the targeted groups, he estimated the company could save six million dollars a year.

By comparing the turnover behavior of different groups at different rates of pay, Gary found evidence not only that it was possible to improve retention by paying more, but also *which* groups might respond best and by *how much*.[14]

Beyond adding new insights to market reviews, this analysis also created an educational opportunity to reinforce a key message: the pay grade is a powerful tool, so make sure initial offers are closer to the market midpoint.

13 Pay-To-Stay: Providence. Visier Case Study, accessed 4/17/2023.
14 Cheek, C. Could Pay Bumps Slow the Great Resignation? For Some Employees: Yes. Visier, accessed 4/17/2023.

# The connection between pay transparency, wage compression, and resignations

As pay transparency laws have begun to go into effect across several U.S. states[15] and are strengthened in other parts of the world,[16] employers have to disclose salary ranges during the hiring process. Potential issues around the effects of wage compression have also received increased attention.[17] One form of wage compression can arise when the difference in salary between employees with more and less experience is small, and employees with longer tenures feel undervalued, causing disengagement and turnover.[18]

Our analyses showed a link between delayed pay adjustments for team members with lower salaries compared to a new, higher paid team member and earlier and higher resignation rates. For example, employees whose salaries were not adjusted to approximate the newest highly paid team member within 6 months resigned 1.8 times sooner compared to those whose pay was adjusted within the first month of the new person's entry (Figure 3: Delayed pay adjustments linked to earlier resignations).

And, employees who hadn't received an adjustment at 12 months resigned 2.3 times sooner.

> **Failure to identify and address wage compression issues quickly can lead to more—and faster—resignations.**

Wage compression also occurs between managers and their direct reports. In some cases, managers can earn up to 32% less than their highest paid employee, a phenomenon that is not too unfamiliar in industries where employees have highly specialized skills, or where workers have non-exempt status.[19]

> **In some cases, managers earn up to 32% less than their highest paid direct report.**

Our findings support the notion that a failure to identify and quickly address potential wage compression effects on the team—or on managers—can lead to more and faster resignations. This trend will become more prevalent as pay transparency widens and open salary conversations between team members become more commonplace.

**FIGURE 3: DELAYED PAY ADJUSTMENTS LINKED TO EARLIER RESIGNATIONS**

Months until first resignation after highest paid new team member joins


* First employee left N times sooner than if the pay adjustment was made in the first month
Source: Research & Insights, Visier Inc. 2023

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15 What States and Cities Have Pay Transparency Laws in 2023? Poster Compliance Center, accessed 4/1/2023.
16 EU Parliament and Council Agree on New Rules for Pay Transparency. SHRM, January 6 2023, accessed 4/10/2023.
17 Wage compression can occur when employees receive the same or higher pay than other employees in the same role or others in higher roles. HR Glossary, SHRM, accessed 4/10/2023.
18 Pay compression: what it is and how to fight it. Insperity, accessed 4/10/2023.
19 Model Salary Basis Policy for Exempt White Collar Workers. U.S. Department of Labor, accessed 4/10/2023.

# Concluding comments

Observations about the relationship between compensation and retention encompassed a large dataset across companies and industries, and the trends and effects we observed can vary from organization to organization. However, since the findings presented are based on live, event-based and factual salary and resignation data, they can provide reliable trend indicators and will ideally prompt HR and business leaders to regularly track their organizations' trends in regards to compa-ratio and resignation rates across the workforce.

# Are you up for the compensation challenge?

Leaders often base decisions on experience or gut feeling rather than on insights and data—in fact, 58% do this for more than half of their business decisions.[20] This can turn out to be an expensive, yet preventable habit—especially when it comes to compensation decisions.

Effective compensation strategies require a thoughtful, data-driven approach in order to mitigate unintended risks and side effects such as wage compression and employee turnover.

As transparent salary conversations—both internally and externally—continue to become more frequent events, organizations must prepare their business leaders and people managers. By providing the necessary data and tools, leaders will be poised to confidently respond to compensation questions and concerns.

## Can you answer these questions about compensation?

**If your organization isn't in a position to answer one or more of these questions, a more data-informed compensation strategy may be in order:**

- ☐ Is your organization tracking resignation rates of employee populations across different compa-ratio bands?
- ☐ What is your organization’s talent strategy for employees at the top of their pay range?
- ☐ Does your organization find it hard to defend equity adjustments in preparation of being more transparent about pay?
- ☐ Do your managers struggle to understand the importance and impact of adjusting employee compensation into the ‘sweet spot’ range?
- ☐ Are your managers able to conduct effective pay conversations with employees?
- ☐ Is your organization considering wage compression events during the hiring process?

[20] How Many Business Decisions Are Based On Gut Feel Rather Than Data? BARC Survey, accessed April 10th 2023.

**Ready to learn more?**
See how Visier can help you solve your most critical compensation review challenges.

# Contributors

**Kevin MacDuff, Solution Management Director**
I live at the intersection of HR, technology, and mathematics. I was an early adopter of People Analytics and the way math and data can provide evidence of human behavior within organizations. I use that understanding of human behavior to build and adapt software solutions to achieve better outcomes for business and employees. As a Solution Management Director at Visier, I use my deep subject expertise to design compelling products and services that solve customer problems and lead the HR function forward. Right now I am focused on compensation and its use to attract, reward, and retain talent.

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Ruturaj Patel, also known as Raj, is a Staff Data Scientist at Visier. His expertise includes Big Data Analytics, Machine Learning, and System architecture. At Visier, his primary responsibility is to develop machine learning models for People Analytics and analyze industry-relevant data to provide businesses with actionable insights for making informed decisions.

**Cuthbert Chow, MDS, BBA & LLB**
Working in the publications focus area as a data scientist co-op at Visier, Cuthbert's primary role is discovering novel and industry-relevant insights within Visier's rich community data. Cuthbert holds a Masters in Data Science and Bachelors in Law and Business.

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## About our data

The findings as presented in this report are curated from Visier Community Data. Visier's database contains >18 million employee records from over 25,000 customers in 75 countries.

For the analyses in this report, we used available data from a subpopulation of 97 enterprise sized organizations in the United States, Europe and Canada, with a collective headcount of 4 million employee records.

Companies represent a wide range of industries, including healthcare, technology, financial services and insurance, energy, and manufacturing, and weighted averages account for different headcounts per each organization.

For each of the included companies, Visier ensured a high degree of confidence in both data availability and quality for the topics and time period being covered by this report.

## Visier Labs

We're always looking to uncover new findings about the human truth of work. Partner with us in research, or get access to data to further your own initiatives at visier.com/labs/workforce-benchmarks.

# About Visier

Visier's purpose is to reveal the human truth about your workforce and contribute to a better future.

Visier was founded to focus on what matters to business people: answering the right questions, even the ones a person might not know to ask. Questions that shape business strategy, provide the impetus for taking action, and drive better business results.

Visier delivers fast, clear people insight by using all the available people data—regardless of source. With best-practice expertise built in, decisionmakers can confidently take action. Thanks to our amazing customers, Visier is the market leader in Workforce Analytics, with more than 25,000 customers in 75 countries around the world.

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