WorldatWork, with underwriting support from Willis Towers Watson, conducted a survey to gather information about trends in compensation programs and practices. This survey focused on the prevalence of base and variable pay programs as well as common practices used to administer and communicate these programs in today’s workplace.
Executive Summary

• Compensation philosophies are prevalent, but there is opportunity to improve employee understanding.

• Most organizations target median/50th percentile of the market for base and variable pay.

• Most organizations formally assess performance and share ratings with employees.

• Organizations continue to differentiate salary increases for top performers, though size of differentiation has tapered.

• More than half of organizations allow managers flexibility in allocating merit increases, even if a merit matrix is provided as a guide.

• The use of multiple salary structures within an organization is extremely common.

• Broad pay transparency remains uncommon.

• Compensation philosophy and performance management tend to be applied consistently in multinational companies.
Compensation philosophies are prevalent, but there is opportunity to improve employee understanding.

Compensation Philosophy

- Virtually all employees understand the compensation philosophy.
- Most employees understand the compensation philosophy.
- About half of employees understand the compensation philosophy.
- Most do not understand the compensation philosophy.
- Virtually no employees understand the compensation philosophy.

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Most organizations *aim* to compete at the median, with more variance in actual practice.

<table>
<thead>
<tr>
<th>Comparison to the relevant labor market</th>
<th>25&lt;sup&gt;th&lt;/sup&gt; percentile</th>
<th>Above 25&lt;sup&gt;th&lt;/sup&gt; but below 50&lt;sup&gt;th&lt;/sup&gt; percentile</th>
<th>50&lt;sup&gt;th&lt;/sup&gt; percentile, or median</th>
<th>Above 50&lt;sup&gt;th&lt;/sup&gt; but below 75&lt;sup&gt;th&lt;/sup&gt; percentile</th>
<th>75&lt;sup&gt;th&lt;/sup&gt; percentile or above</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base salary target (or goal) (n=329)</td>
<td>0%</td>
<td>5%</td>
<td>87%</td>
<td>6%</td>
<td>2%</td>
</tr>
<tr>
<td>Base salary practice (n=324)</td>
<td>1%</td>
<td>24%</td>
<td>63%</td>
<td>10%</td>
<td>3%</td>
</tr>
<tr>
<td>Total cash target (or goal) (n=282)</td>
<td>1%</td>
<td>4%</td>
<td>80%</td>
<td>11%</td>
<td>4%</td>
</tr>
<tr>
<td>Total cash practice (n=283)</td>
<td>1%</td>
<td>21%</td>
<td>59%</td>
<td>15%</td>
<td>5%</td>
</tr>
<tr>
<td>Variable pay target (or goal) (n=259)</td>
<td>2%</td>
<td>9%</td>
<td>78%</td>
<td>10%</td>
<td>2%</td>
</tr>
<tr>
<td>Variable pay practice (n=258)</td>
<td>4%</td>
<td>18%</td>
<td>59%</td>
<td>17%</td>
<td>2%</td>
</tr>
</tbody>
</table>
No significant changes in job evaluation methods used; market pricing remains the dominant leader.

Method for Determining the Relative Value of Jobs

- **Market pricing**
- **Classification**
- **Point factor**
- **Ranking**
- **Other method**
- **No method in place**

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91% of organizations use at least one form of variable pay (not including sales commission plans).

Variable Pay Used

- 83% Bonuses (e.g., sign-on, retention)
- 69% Recognition (e.g., spot award)
- 68% Performance sharing
- 40% Individual incentives, other than sales incentives
- 24% Profit sharing

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Individual performance, position-in-range and/or market value are most common determinants of pay increase size.

Determination of Base Salary Increases (n=333)

- Individual performance against job standards
- Position in range
- Market value of the position
- Individual performance against management by objectives (MBOs)
- Skill or competency acquisition
- Education/certifications
- Years of service
- General increase
- Other
Formal assessments of performance and use of ratings are declining.

- No, we do not formally assess performance.
- Formally assess performance, but do not assign a performance rating.
- Formal program with a performance rating, but the rating is not shared with the employee.
- Formal program with a performance rating that is shared with the employee.
Ranking of individual employees by performance is rare.

- 67% of respondents in 2016 (n=581) ranked employees.
- 70% of respondents in 2018 (n=334) ranked employees.

- **No, we do not rank employees.**
- Employees are ranked, and those rankings are integrated with rankings of all employees of the organization.
- Employees are ranked, and those rankings are integrated with rankings of employees of other managers or the entire department/division.
- Managers rank their own employees, but rankings are not integrated with other managers’ teams/units.

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Salary increases tend to be tied to performance rating.

Salary Increases Tied to Performance (n=302)

- Salary increases are tied to the performance rating: 66%
- Salary increases are influenced by ranking: 27%
- Salary increases are not tied to or influenced by performance rating or ranking: 15%
Organizations continue to differentiate salary increases for top performers, though size of differentiation has tapered.

Typical Variation in Salary Increases

- **Extreme variation**: Increase for top performers is at least 3x average
- **Considerable variation**: Increase for top performers is 2x average
- **Moderate variation**: Increase for top performers is 1.5x average
- **Small variation**: Increase for top performers is 1.25x average
- **No variation**: Approximately the same increase for everyone

Base salary increase is based on something other than individual performance.
About half allow managers flexibility in allocating merit increases, even if merit matrix is provided as a guide.

Method for Determining Salary Increase Based on Performance

<table>
<thead>
<tr>
<th>Method</th>
<th>2012 (n=677)</th>
<th>2014 (n=425)</th>
<th>2016 (n=457)</th>
<th>2018 (n=229)</th>
</tr>
</thead>
<tbody>
<tr>
<td>No guidance is provided other than the overall budget figure.</td>
<td>51%</td>
<td>52%</td>
<td>44%</td>
<td>48%</td>
</tr>
<tr>
<td>Other guidance is provided.</td>
<td>3%</td>
<td>5%</td>
<td>13%</td>
<td>13%</td>
</tr>
<tr>
<td>A specific guide providing one increase percentage or a range of increase percentages for each level of performance is published that must be followed.</td>
<td>5%</td>
<td>6%</td>
<td>8%</td>
<td>9%</td>
</tr>
<tr>
<td>A specific guide providing one increase percentage or a range of increase percentages for each level of performance is published as a guide only.</td>
<td>10%</td>
<td>10%</td>
<td>5%</td>
<td>4%</td>
</tr>
<tr>
<td>Managers must follow a merit matrix in which a specific percentage increase is published for each box.</td>
<td>12%</td>
<td>13%</td>
<td>9%</td>
<td>9%</td>
</tr>
<tr>
<td>Managers must follow a merit matrix in which a specific range of increases is published for each box.</td>
<td>11%</td>
<td>11%</td>
<td>6%</td>
<td>6%</td>
</tr>
<tr>
<td>Managers use a merit matrix as a guide, but they have discretion to deviate if deemed appropriate.</td>
<td>10%</td>
<td>10%</td>
<td>13%</td>
<td>13%</td>
</tr>
</tbody>
</table>
Organizations tend to have 3 to 5 performance levels, but the tendency to skew to higher ratings is common.

Number of Performance Levels Used to Assess Individual Performance (n=247)

- Two: 24%
- Three: 22%
- Four: 46%
- Five: 6%

Distribution of Employees Across Performance Categories (n=246)

- Most people fell in the middle, with a bell-shaped distribution around the middle.
- The spread is skewed toward lower performance ratings.
- The spread is skewed toward higher performance ratings.
- We do not track this information.
Documentation to justify FLSA classification is common.

Portion of Employees Exempt from FLSA Requirements (n=213)

Portion of U.S. Positions/Jobs that have FLSA Exemption Status Documentation

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Almost half of the organizations market price annually.

Frequency of Market Pricing
(n=322)

- Once a year: 48%
- Once every two years: 17%
- Less than once every two years: 2%
- Not consistently (as needed, based on market conditions): 25%
- Multiple times per year: 8%
Most organizations have a salary structure with grades, which they adjust annually.

86% of salary structures consist of salary grades, compared to 9% consisting of broadbands. (n=268)

Organizations with Formal Salary Structures (n=322)

Yes 84%

No 16%

Frequency of Salary Structure Adjustments (n=271)

- 62% once a year
- 22% not consistently adjusted
- 15% once every two years
- 2% less than once every two years
Use of multiple salary structures within an organization is extremely common.

Organizations with >1 Salary Structure (n=204)
- Yes: 74%
- No: 27%

Number of Salary Structures (n=189)
- 5+ structures: 62%
- 4 structures: 9%
- 3 structures: 16%
- 2 structures: 13%
Salary structures are often defined by geographic region and/or job categories.

How Separate Salary Structures Are Defined/Identified (n=190)

- By geographic region: 63%
- Job category/role: 53%
- By FLSA exemption status or other regulatory classification: 26%
- By business unit/subsidiary: 22%
- Bargaining unit/union: 13%
- Other: 11%
Typical range spread structures vary by employee category.

Typical Range Spread

Hourly (n=210)
- 50% or more: 41%
- 40% to less than 50%: 24%
- 30% to less than 40%: 12%
- 20% to less than 30%: 10%
- 10% to less than 20%: 8%
- Less than 10%: 5%

Salaried (n=222)
- 75% or more: 11%
- 65% to less than 75%: 16%
- 55% to less than 65%: 23%
- 45% to less than 55%: 30%
- 35% to less than 45%: 11%
- 25% to less than 35%: 4%
- Less than 25%: 5%

Executive (n=220)
- None for executives: 34%
- 75% to less than 85%: 10%
- 65% to less than 75%: 10%
- 55% to less than 65%: 13%
- 45% to less than 55%: 12%
- 35% to less than 45%: 12%
- 25% to less than 35%: 7%
- Less than 25%: 4%
Midpoint progressions also vary by employee category.
Performance and/or market adjustments are most common types of salary increases.

Types of Salary Increases and/or Adjustments Awarded to Some or All Employees

- Promotional increases
- Merit increases
- Market adjustments
- Internal equity adjustments
- Pay differentials
- Geographic differential
- Temporary special-assignment pay
- Cost-of-living adjustments (COLAs)
- General across-the-board increases (not COLA)
- Length of service
- Other
Broad pay transparency remains uncommon.

Information Shared with Employees About Their Individual Salaries

- Minimal pay-related information: 47% in 2018, 42% in 2016, 38% in 2014, 20% in 2012, 13% in 2010
- Information regarding the design of the pay program: 13% in 2018, 6% in 2016, 2% in 2014, 6% in 2012, 2% in 2010
- Base salary range for the employee’s pay grade: 6% in 2018, 6% in 2016, 6% in 2014, 6% in 2012, 6% in 2010
- Base salary ranges for all pay grades or jobs: 2% in 2018, 2% in 2016, 2% in 2014, 2% in 2012, 2% in 2010
- Actual pay levels for all employees: 2% in 2018, 2% in 2016, 2% in 2014, 2% in 2012, 2% in 2010
- Other: 6% in 2018, 6% in 2016, 6% in 2014, 6% in 2012, 6% in 2010

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Employees tend to receive information about their individual pay once per year.

Frequency of Employee Communication About Pay in 12 Months

<table>
<thead>
<tr>
<th>Year</th>
<th>At least once</th>
<th>Twice</th>
<th>Three times</th>
<th>Four times</th>
<th>Five times or more</th>
<th>Never</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>82%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>12%</td>
</tr>
<tr>
<td>2016</td>
<td>81%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>11%</td>
</tr>
<tr>
<td>2014</td>
<td>77%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>16%</td>
</tr>
<tr>
<td>2012</td>
<td>79%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>12%</td>
</tr>
<tr>
<td>2010</td>
<td>76%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>12%</td>
</tr>
</tbody>
</table>

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Pay communications are generally handled through supervisors, but use of TR or comp statements are up.

How Employees Received Communications About the Pay Program in the Last 12 Months

- Individual discussions with supervisor: 81%
- Memos, emails: 42%
- Periodic total rewards or compensation statements: 48%
- Company website: 37%
- Individual discussions with HR/compensation department: 30%
- Company website: 27%
- Employee meetings: 18%
- Employee handbook or orientation manual: 5%
- No pay communications: 5%
- Other: 0%

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Salary increase communications are usually brief.

Approach to Communicating Individual Salary Increases (n=300)
Turnover/retention and satisfaction surveys are most relied on for assessment of pay program.

How Management Determines Pay Program Effectiveness (n=305)

- Employee turnover or retention: 68%
- Employee satisfaction survey metrics: 54%
- Business/operating results: 31%
- Senior leadership tells us that it is working: 21%
- Employees tell us that it is working: 19%
- Management does not evaluate pay program effectiveness: 15%
- Employee productivity metrics: 14%
- Labor cost is controlled/lowered: 14%
- Other: 4%
Variety in degree of HRIS system/function integration is virtually unchanged since 2016.

Systems Used to Maintain Compensation-Related Employee Data

<table>
<thead>
<tr>
<th>System Description</th>
<th>2018 (n=316)</th>
<th>2016 (n=555)</th>
</tr>
</thead>
<tbody>
<tr>
<td>One primary system that stores employee data for all employees within the organization, but it does not store any nonemployee data used by other function(s).</td>
<td>38%</td>
<td>38%</td>
</tr>
<tr>
<td>An enterprise system (includes all employees in entire organization) that stores all employee data and data to manage other function(s) of the organization</td>
<td>35%</td>
<td>34%</td>
</tr>
<tr>
<td>Multiple HRIS/payroll systems that store employee data and we must merge data to perform analyses on an organization-wide basis.</td>
<td>23%</td>
<td>23%</td>
</tr>
<tr>
<td>A basic spreadsheet, software program(s) or other database that was not exclusively designed to store employee data.</td>
<td>4%</td>
<td>5%</td>
</tr>
<tr>
<td>Other</td>
<td>0%</td>
<td>1%</td>
</tr>
</tbody>
</table>

2% of these systems were developed internally by the organization’s IT department. (n=230)
Primary systems’ analytic capabilities don’t generally eliminate need for analysis in other programs.

Primary Method(s) Used to Analyze Compensation-Related Data (n=312)

- Our primary system offers some analytical capability, but we often need to download data to other programs (e.g., Excel) to perform additional analyses. 59%
- Our primary system offers analytical capability to do most/all analyses needed. 7%
- Our primary system offers little/no analytical capability. 34%
General compensation analyses and analyses associated with pay equity are common and steady.

- General compensation analyses: 96% (2018, n=306) vs. 97% (2016, n=545)
- Analyses related to pay equity in terms of ongoing pay levels or how merit increases have been allocated: 71% (2018, n=306) vs. 70% (2016, n=545)
- Analytics used for predictive or modeling purposes, which may result in proactive changes to a compensation-related policy or practice: 31% (2018, n=306) vs. 30% (2016, n=545)
- Analyses to produce various statistics on an ongoing basis, which may be included in a recurring department or company report: 29% (2018, n=306) vs. 25% (2016, n=545)
Compensation philosophy and performance management tend to be applied consistently in multinational companies.

Compensation Philosophy Across the Company (n=108)
- Same across the company: 82%
- Varies by country or region: 18%

Performance Management Applied Consistently to All Countries (n=114)
- Yes: 85%
- No: 15%
Corporate tends to drive design and administration of variable pay programs, with some local flexibility.

Variable Pay Design and Administration Across Multiple Countries (n=112)

- 53%: Variable pay programs are designed primarily at the corporate level, and all employees usually participate in the same programs, with flexibility for local countries.
- 32%: Variable pay programs are designed exclusively at the corporate level, and all employees worldwide participate in the same programs.
- 12%: Variable pay programs are designed with significant input from local HR and/or line management.
- 4%: Variable pay programs are designed and administered primarily at the local level to ensure they are meeting the unique needs of local employees.
Types of variable pay don’t vary much from country to country.

<table>
<thead>
<tr>
<th>Region</th>
<th>Profit sharing</th>
<th>Performance sharing</th>
<th>Individual incentives</th>
<th>Bonuses</th>
<th>Recognition</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S./Canada (n=111)</td>
<td>17%</td>
<td>64%</td>
<td>47%</td>
<td>86%</td>
<td>76%</td>
</tr>
<tr>
<td>Africa (n=38)</td>
<td>13%</td>
<td>71%</td>
<td>53%</td>
<td>79%</td>
<td>71%</td>
</tr>
<tr>
<td>Asia-Pacific (n=97)</td>
<td>12%</td>
<td>60%</td>
<td>47%</td>
<td>83%</td>
<td>73%</td>
</tr>
<tr>
<td>Eastern Europe (n=64)</td>
<td>11%</td>
<td>70%</td>
<td>55%</td>
<td>88%</td>
<td>77%</td>
</tr>
<tr>
<td>Western Europe (n=101)</td>
<td>14%</td>
<td>61%</td>
<td>47%</td>
<td>84%</td>
<td>71%</td>
</tr>
<tr>
<td>Middle East (n=54)</td>
<td>9%</td>
<td>70%</td>
<td>50%</td>
<td>91%</td>
<td>72%</td>
</tr>
<tr>
<td>Latin America (n=80)</td>
<td>20%</td>
<td>66%</td>
<td>51%</td>
<td>81%</td>
<td>71%</td>
</tr>
</tbody>
</table>
Demographics
Sector (n=311)

- Private sector, publicly traded: 68%
- Private sector, privately held: 19%
- Government/public sector (local, state, federal): 5%
- Nonprofit/ not-for-profit: 8%
Organization Size  (n=311)

- Fewer than 100 employees: 2%
- 100 to 499 employees: 6%
- 500 to 999 employees: 5%
- 1,000 to 2,499 employees: 14%
- 2,500 to 4,999 employees: 13%
- 5,000 to 9,999 employees: 21%
- 10,000 to 19,999 employees: 16%
- 20,000 to 39,999 employees: 10%
- 40,000 to 99,999 employees: 9%
- 100,000 or more employees: 4%
Industry (n=311)

- All Other Manufacturing: 15%
- Finance & Insurance: 12%
- Information (includes Publishing, IT Technologies, etc.): 9%
- Consulting, Professional, Scientific and Technical Services: 6%
- Utilities: 6%
- Healthcare and Social Assistance: 6%
- Chemical Manufacturing (includes Pharmaceuticals): 6%
- Retail Trade: 5%

Only industries with at least 5% of responding organizations are listed here.
Regions Where Respondents Have Responsibility
(n=348)

- United States/Canada: 99%
- Western Europe: 34%
- Eastern Europe: 22%
- Middle East: 19%
- Asia-Pacific: 33%
- Latin America: 27%
- Africa: 13%
- Eastern Europe: 22%
- Western Europe: 34%
- Middle East: 19%
- Asia-Pacific: 33%
Methodology

This report summarizes the results of an October 2018 survey of WorldatWork members that gathered information about trends in compensation programs and practices.

On Oct. 17, 2018, survey invitations were sent electronically to 4,806 WorldatWork members. The survey closed on Nov. 16, 2018, with 375 responses. The dataset was cleaned, resulting in a final dataset of 348 responses. In order to provide the most accurate data possible, data was cleaned and analyzed using statistical software. Any duplicate records were removed.

The demographics of the survey sample and the respondents are similar to the WorldatWork membership as a whole. The typical WorldatWork member works at the managerial level or higher in the headquarters of a large company in North America. The frequencies or response distributions listed in the report show the number of times or percentage of times a value appears in a dataset. Due to rounding, frequencies of data responses provided in this survey may not total exactly 100%.

The full text of the questionnaire can be found here. A list of participating organizations can be found here.
Definitions

➢ **Compensation philosophy**: A statement of what the organization believes about how people should be paid as well as how that pay should support the business strategy and fit within the organizational culture. A key component is how the organization intends to pay its people relative to its competitors (i.e., the desired market position).

➢ **Compensation policy**: Ensures that a compensation program carries out the compensation strategy while supporting the compensation philosophy.

➢ **Variable pay**: Short-term cash awards that are contingent upon performance, discretion or results achieved (for periods of one year or less), except for sales commission plans. This may include incentive plans, bonuses or cash recognition.

➢ **Salary structure**: The hierarchy of job grades and pay ranges established within an organization. The salary structure may be expressed in terms of job grades, bands, job evaluation points or policy lines.
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