

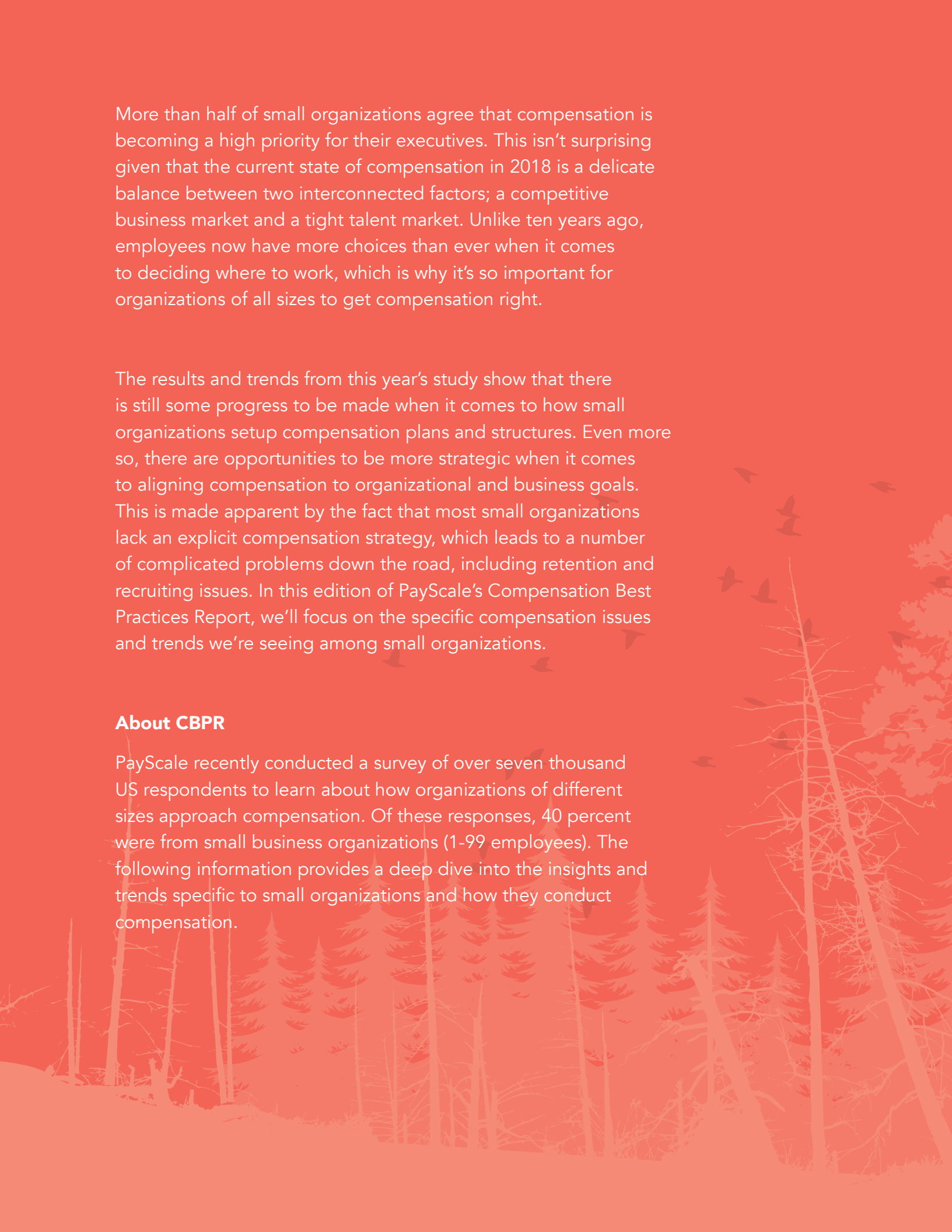


2018 COMPENSATION BEST PRACTICES REPORT

SMALL BUSINESS EDITION

A Payscale REPORT





More than half of small organizations agree that compensation is becoming a high priority for their executives. This isn't surprising given that the current state of compensation in 2018 is a delicate balance between two interconnected factors; a competitive business market and a tight talent market. Unlike ten years ago, employees now have more choices than ever when it comes to deciding where to work, which is why it's so important for organizations of all sizes to get compensation right.

The results and trends from this year's study show that there is still some progress to be made when it comes to how small organizations setup compensation plans and structures. Even more so, there are opportunities to be more strategic when it comes to aligning compensation to organizational and business goals. This is made apparent by the fact that most small organizations lack an explicit compensation strategy, which leads to a number of complicated problems down the road, including retention and recruiting issues. In this edition of PayScale's Compensation Best Practices Report, we'll focus on the specific compensation issues and trends we're seeing among small organizations.

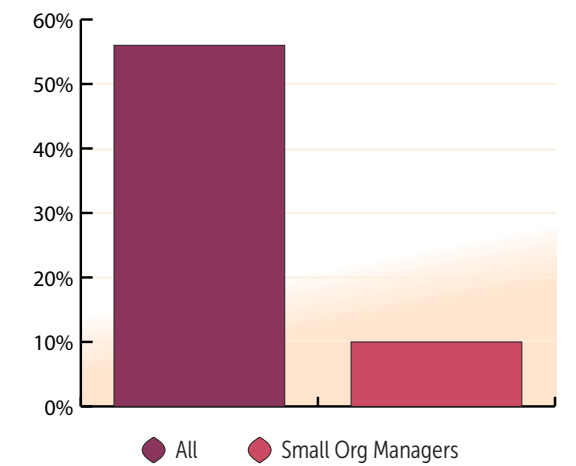
About CBPR

PayScale recently conducted a survey of over seven thousand US respondents to learn about how organizations of different sizes approach compensation. Of these responses, 40 percent were from small business organizations (1-99 employees). The following information provides a deep dive into the insights and trends specific to small organizations and how they conduct compensation.

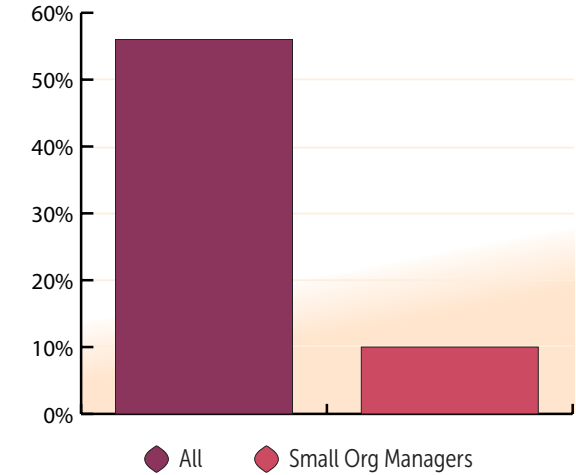
A Crisis of Confidence

It's not just you. Organizations of all sizes are facing a crisis of confidence when it comes to setting and communicating compensation to employees. The vast majority of managers are confident in their ability to explain the rationale behind pay decisions to employees, but only 15 percent of small organizations share that confidence. This lack of confidence in managers explains why only 10 percent of small organizations told us that managers are playing a more important role in communicating compensation. This confidence gap shows that small organizations have room for improvement when it comes to training managers to have conversations about pay, including how managers communicate total compensation statements as well as how pay decisions are determined. To close the confidence gap, small organizations (especially those lacking an official compensation department) should ensure that managers are working and communicating closely with Human Resources on issues surrounding pay decisions. This will ultimately lead to better pay conversations between managers and employees.

Managers Play an Important Role in Communicating Comp



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Only **15%** of small organizations have confidence in their managers ability to explain pay decisions

Retention and Recruiting

More than half of small organizations told us that employee retention is a major concern for them (33 percent agreed, while 23 percent strongly agreed). Retention was also noted as the top reason small organizations will consider changing their comp strategy this year, with 34 percent listing it as the number one reason they changed their strategy.

As the war for talent gets tighter, it becomes difficult for small organizations to fill and retain certain job roles. The hardest roles to fill are skilled tradespeople (24 percent), management and sales (tied at 17 percent), and IT (14 percent). Because small organizations tend to offer niche products or services, being able to retain skilled tradespeople can have a major impact on your bottom line, especially when the cost to train and ramp up talent can be so much higher for a small organization compared to a larger sized organization. In terms of recruitment, the cost is even higher when you consider that 30 percent of small organizations told us the top reason these positions remain unfilled is because they are unable to offer a competitive salary. Compensation was also noted as the third most common reason employees voluntarily left small organizations this year (48 percent). The top reasons were personal reasons (62 percent) followed by professional advancement (51 percent). Again, this helps illustrate the burden small organizations are forced to carry when there is a lack of compensation strategy and support internally.

Hardest Jobs to Fill

	Small Business	All
Skilled Tradespeople	24%	23%
Management	17%	19%
Sales	17%	15%
IT	14%	26%
Engineering	13%	18%
Customer Service	12%	9%
Executive Level	8%	10%
Marketing	8%	6%
Healthcare Practitioners	7%	10%
Finance	6%	7%
Other	27%	24%

75%
of small orgs report
changing their
compensation
strategy for retention
efforts in 2018

Gender Pay Equity

It is important for small organizations to build a good pay brand. This can be done in a few ways, including strategic communication to employees that show your organizational approach to pay equity. Paying everyone fairly doesn't mean paying all your employees the same. A good pay brand will have a defined way of rewarding the things that matter most to your organization, like performance, experience and critical skills.

An effective way to show your employees that you care about pay equity is to reward high performers. A good way to do this is to be equipped with the right tools to avoid gender inequities. For example, organizations that use PayScale's Insight lab tool can rely on their own employee data to see exactly where gender inequities currently exist in their organization. This feature is important as employers are increasingly talking about their diversity efforts including the provision of better access for women and people of color in leadership roles, conducting pay equity audits, and even sharing pay equity data.

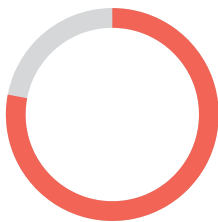


The Gender Pay Gap Persists

Woman still paid less than men in 2018

UNCONTROLLED GENDER PAY GAP

COMPARING ALL WORKING WOMEN
TO ALL WORKING MEN.



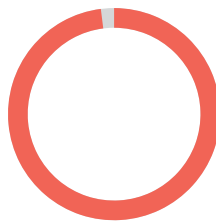
WOMEN EARN

78¢

FOR EVERY \$1 EARNED BY MEN

CONTROLLED GENDER PAY GAP

COMPARING SIMILAR WOMEN
AND MEN IN SIMILAR JOBS.



WOMEN EARN

98¢

FOR EVERY \$1 EARNED BY MEN

In 2018, **28%**
of organizations are
planning to conduct
a racial and/or
gender pay equity
analysis.

Variable Pay

Budgets are tight and so is talent, which explains why variable pay has been increasing over time. Variable pay continues to be a popular strategy, especially among high-performing organizations and small organizations.

The most popular type of variable pay from small organizations was bonus pay: 78 percent of executives, directors and managers received bonuses, along with 69 percent of other EEs and 59 percent of non-exempt employees. Sales employees were the least likely to receive bonus pay: only 47 percent received bonuses in 2017.

Incentive pay was the second most common variable pay option with the most going to executives, directors and managers and sales employees. What factors influenced variable pay the most for small organizations? It varies by job level.

Most Important Factor Determining Incentive Pay, by Job Level

	Factor	Percent of Small Orgs
Executives	24%	23%
Directors and Managers	17%	19%
Sales Employees	17%	15%
Professional, Technical and Administrative EEs	14%	26%
Non-Exempt Employees	13%	18%

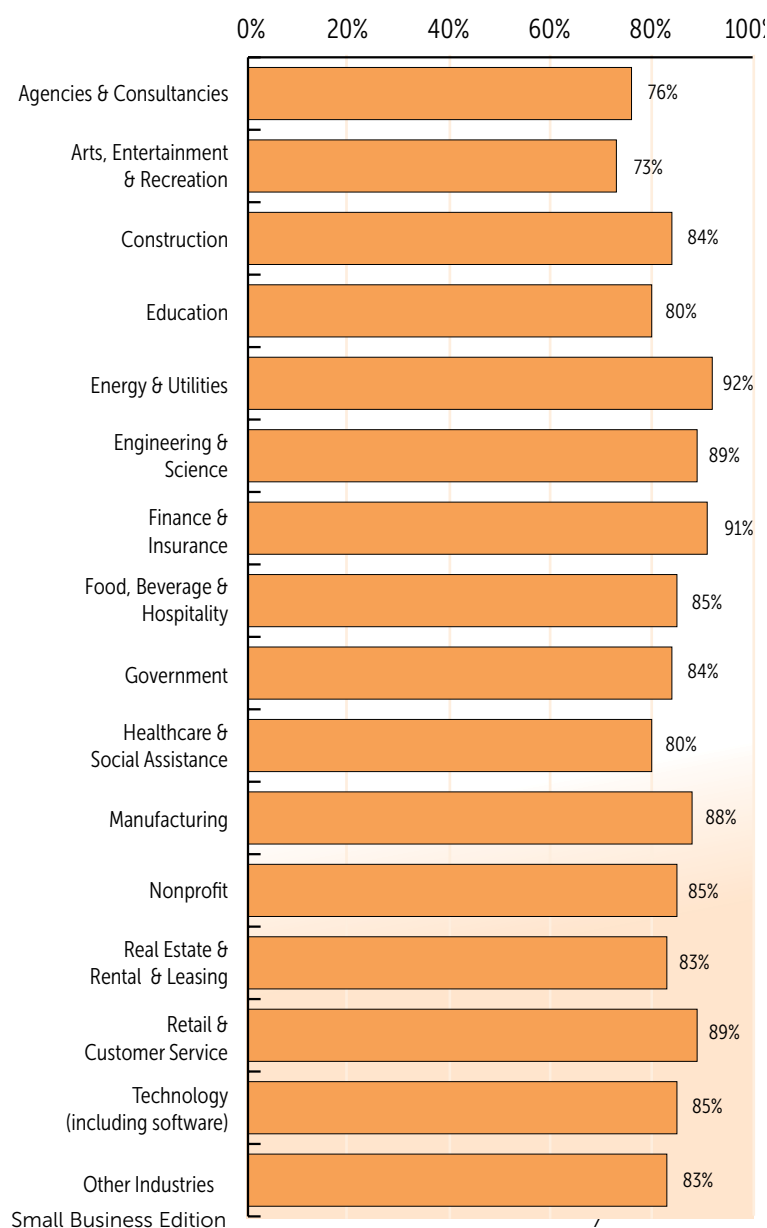
To get variable pay right, small organizations should focus on getting more specific about the types of bonuses they offer. Additionally, small orgs can develop business plans that align strategically to incentive plans across the entire organization. Small organizations are more likely to use individual incentive bonuses than hiring or retention bonuses. They are less likely than larger organizations to use hiring and retention bonuses.

Small organizations overwhelmingly prefer bonuses on almost every job level, except for sales employees who are more likely to receive commissions.

Compensation Trends by Industry

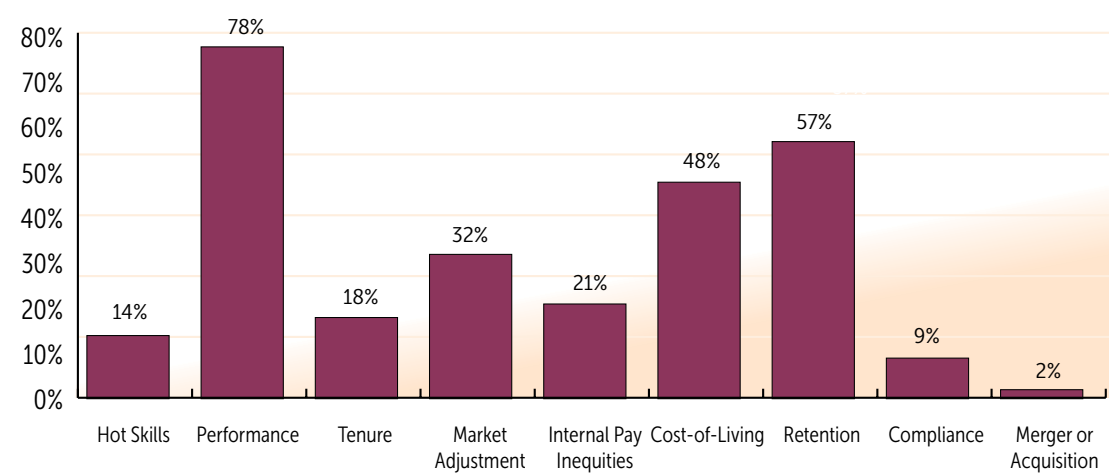
Not all industries are created equal, and each industry comes with its own unique challenges. But at the end of the day, what's actually moving the needle for organizations across the board and across all industries is adjusting their compensation strategy to improve retention efforts. Most organizations plan to give increases in 2018 (84 percent overall including 80 percent of small orgs) and there isn't much variability by industry: 92 percent of Energy & Utilities organizations expect to give increases in 2018, while only 73 percent of Arts, Entertainment, & Recreation organizations expect to do so.

Planned 2018 Raises, by Industry



Employee retention efforts a top concern across industries

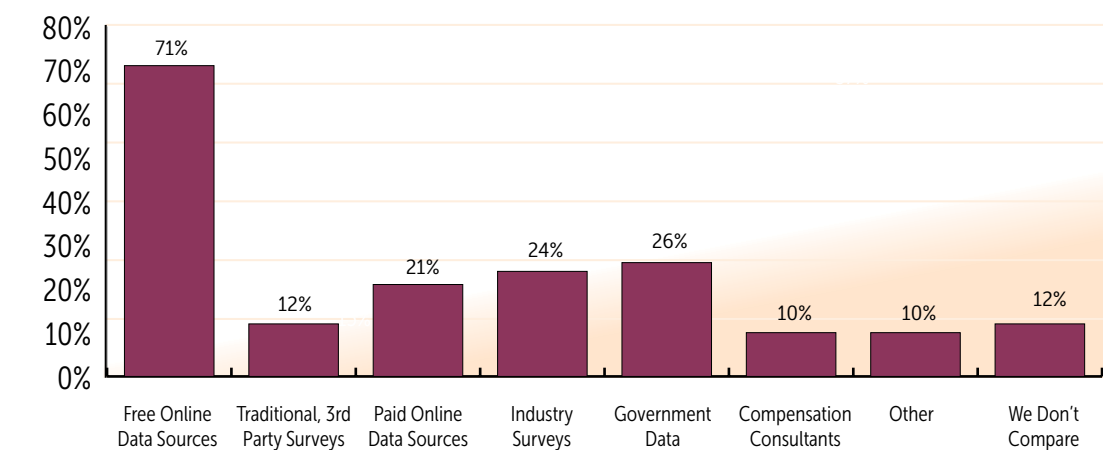
Top Reasons Small Orgs Gave Raises in 2017



Market Data Sources

Market data comes in all shapes, flavors, and sources these days. When small organizations choose market data, they prioritize data that is credible and reliable. Small organizations also find company-sourced compensation data more trustworthy than crowd-sourced compensation data. Small organizations that go without market data or a full market study run the risk of not seeing the full picture when it comes to compensation and pricing positions and salary ranges. This has never been more important than it is today. The rising number of online resources employees can now look to for salary information has made employees confident in approaching their managers and employer for a raise. This is exactly why it's so important for small organizations to have reliable market data to ensure they are paying within the right ranges and pricing the right jobs.

Most Popular Market Data Sources for Small Orgs

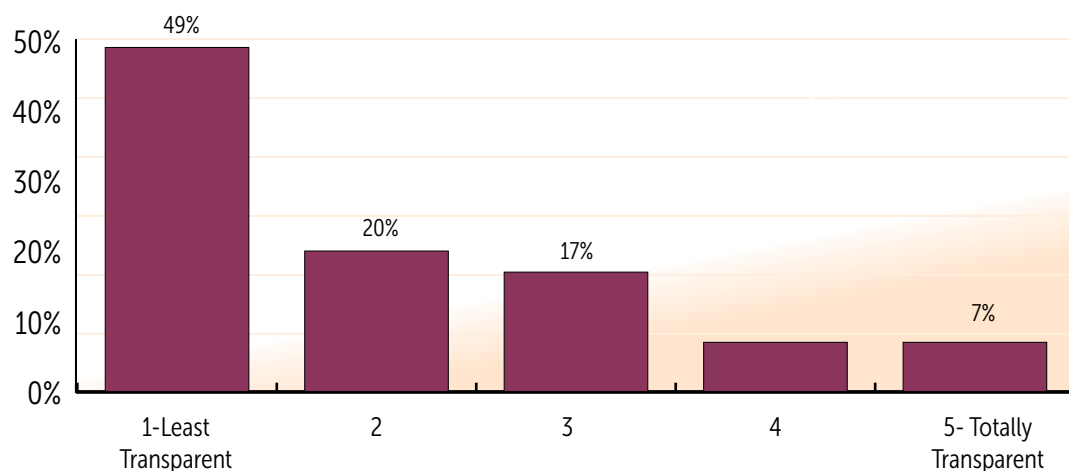


The majority of small organizations find both crowd-sourced and company-sourced compensation data to be helpful

Comp, Culture and The Pay Transparency Spectrum

Culture has always been where small organizations shine, but that isn't where the work ends. Because turnover can come at such a higher cost for small organizations, it's important to be hyper aware of the fact that your employees are making value judgements on how you craft your pay philosophy and practices. When employees feel like these pay components don't align with the company culture you're presenting, you risk employees taking their talents somewhere else. In terms of pay transparency, there are areas of improvement for small organizations. We found that only 17 percent of small organizations have a comp plan and share pay ranges with employees. This helps explain why only seven percent of small orgs that fit into the next category on the pay transparency spectrum, which consists of having a compensation plan that reflects organizational culture, drives talent strategy and is open to employees. For organizations looking to introduce more pay transparency, consider providing total compensation statements for employees. These statements detail all expenses that the organization makes on behalf of the employee including base pay, bonuses or incentives, benefits and perks. The silver lining is that more small organizations than not are sharing some market data with employees, indicating that some small orgs are slowly advancing towards a more transparent way of communicating pay.

Where Small Orgs Fall on the PayScale Transparency Spectrum



Only 7 percent of small organizations say their comp plan reflects organizational culture

Survey Methodology

PayScale releases the Compensation Best Practices Report annually in the first quarter of the year. This year, we surveyed over 7,000 business leaders and HR professionals in November and December 2017.

Category Definition

We define enterprise organizations as those with 5,000 or more employees. Of the 7,200 respondents, 570 worked in enterprise organizations.

Location of Headquarters

United States, 75%
Canada, 9%
India, 3%
Others, 6%

Number of Separate Locations

1 exclusive location, 61%
2 - 10 separate locations, 36%
11 - 20 separate locations, 2%
21 + separate locations, 1%

Primary Industry (Top 5)

Health Care and Social Assistance, 12%
Technology (including software), 11%
Nonprofit, 11%
Manufacturing, 9%
Construction, 7%

Type of Organization

Private Company, 70%
Not for Profit Organization, 13%
Public Company, 11%
Government, 4%
Hospital, 2%
Other, 4%

Job Level of Respondent

Individual Contributor, 14%
Manager, 36%
Director, 24%
C-Level, 18%
Vice President, 8%

Primary Job Function of Respondent

Human Resources, 37%
Compensation, 1%
Technology, 2%
Operations, 13%
Finance/Accounting, 9%
Consultant, 3%

About PayScale

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