Aon Hewitt
Radford

May 2015

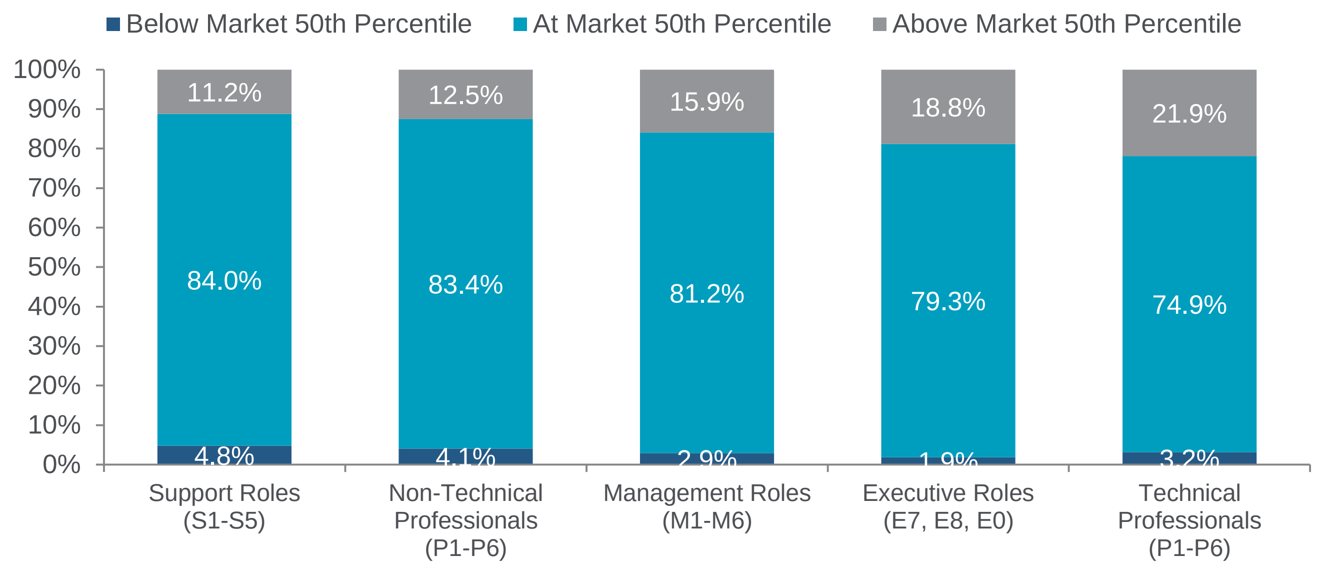
Hot Topics Excerpt: Technology Firms Aim Higher for Engineers than Executives

Radford's latest Hot Topics survey on the competitive positioning of pay shows just how fierce the race for top technical talent has become.

Each quarter, Radford creates and publishes a new Hot Topics survey designed to address timely issues within our client community. In the first quarter of 2015, to coincide with upcoming compensation focal periods, we explored how companies position pay levels relative to the market. In other words, do companies target the market 50th percentile for pay, or some other level of compensation above or below the market midpoint?

The results of our latest survey surprised us a bit. While it's true that the vast majority of companies still target the market 50th percentile for all positions, the intense race for "hot skills" talent among technology sector companies is forcing human resources teams to get increasingly aggressive in setting pay levels for technical jobs. In fact, technology sector companies are now more likely to set pay targets above the market 50th percentile for technical staff in professional individual contributor roles (Radford survey levels P1 to P6) than for executive officers (Radford survey levels E7, E8 and E0). To illustrate this dynamic, the chart below displays base salary targets across all major employee cohorts tracked in Radford's global survey databases:

Competitive Positioning for Base Salaries in the Technology Sector



Clearly, it's a good time to know how to read source code. What's more, similar results were also observed across the full spectrum of compensation elements. Whether you look at how companies position pay levels for base salaries, total cash compensation, long-term incentives/equity or total direct compensation, professionals in technical roles tend to lead the pack when it comes to pay targets set above the market midpoint.

One key exception to this trend appears in our data on long-term incentives/equity. Here, as one might expect, executive officers remain most likely to see pay targets set above the market 50th percentile. This is due to the fact that Boards of Directors and Compensation Committees typically use large amounts of equity compensation to create strong pay-for-performance links in executive pay packages.

Next Steps

What does this all mean? Several key takeaways spring to mind:

- First, this data confirms that what we all read about in the news is real: there is a fierce competition for technical talent and its impacting compensation practices. As more companies target pay levels above the market midpoint, compensation will increase at a faster rate. This ratchets up the pressure on companies to make aggressive **new-hire offers** and suggests that the average annual base salary increase of 3.0% (in the US) isn't very likely to cut it for key talent.

- Second, clients should remember that the market 50th percentile is not the same for all companies. While roughly 80% of surveyed firms report targeting pay at the market midpoint, actual compensation levels at these companies could vary widely depending on how they define their specific competitive labor market. This reinforces the need to periodically review compensation peer groups as your business grows and to run highly targeted benchmarking reports on a regular basis.

- Third, the data signifies that fears of rising internal pay inequities are a real risk for companies. Again, as more firms target pay levels above the market midpoint, compensation will increase at a faster rate. This is especially true for new-hires, who are most likely to enjoy immediate benefits from rising salary ranges. In today's bull market for technical talent, compensation professionals should monitor internal pay equity, pay compression, and workforce analytics/engagement issues with increasing vigilance.

- Finally, our survey results indicate that compensation professionals need to be ready and able to make strong business cases for positioning pay levels above the market midpoint, at least for some technical roles. This can be a very costly maneuver, so compensation teams need to run the numbers before taking action. After assessing market data at multiple competitive levels — the 50th, 60th 65th and 75th percentiles for example — teams should run detailed gap-to-market analyses to assess potential costs associated with migrating pay to higher levels. When combined with employee performance data, these analyses allow compensation teams to assist human resources teams and business leaders in spotting potential problem areas and providing cost-effective solutions to boost employee engagement.

To learn more about participating in Radford's next Hot Topics Survey and how to access full survey results, please **contact our team**.

To speak with a member of our compensation consulting team to assess the implications of updating your competitive position in the market, please write to **consulting@radford.com**.

Author Contact Information

Tim Brown
Partner, Radford
Aon Hewitt
+1.408.321.2516
tbrown@radford.com

Dan Weber
Director, Radford
Aon Hewitt
+1.408.321.2515
dweber@radford.com

Alex Cwirko-Godycki
Director, Radford
Aon Hewitt
+1.408.321.2517
acwirko@radford.com

About Radford

Radford provides compensation data and advice to technology and life sciences companies. We support firms at every stage of development, from emerging start-ups to established multi-nationals. Today, our surveys deliver in-depth compensation insights in more than 80 countries to over 2,650 participating organizations, and our consultants work with hundreds of firms annually to design rewards programs for boards of directors, executive officers, broad-based employees and sales professionals. Radford is part of Aon Hewitt, a business unit of Aon plc (NYSE: AON). For more information, visit radford.com.

About Aon Hewitt

Aon Hewitt empowers organizations and individuals to secure a better future through innovative talent, retirement and health solutions. We advise, design and execute a wide range of solutions that enable clients to cultivate talent to drive organizational and personal performance and growth, navigate retirement risk while providing new levels of financial security, and redefine health solutions for greater choice, affordability and wellness. Aon Hewitt is the global leader in human resource solutions, with over 30,000 professionals in 90 countries serving more than 20,000 clients worldwide. For more information on Aon Hewitt, please visit aonhewitt.com.