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Silicon Alley vs. Silicon Valley: Comparing and Contrasting Compensation Practices

The technology market in and around New York City is maturing rapidly, but even as pay levels align more closely with Silicon Valley, plan design remains distinct in important ways.

The workforce dynamics for technology companies on the east and west coasts of the United States (US) are undeniably different. The New York tech scene— often referred to as Silicon Alley— operates in an environment with a far greater diversity of non-traditional and non-tech companies competing for talent. What's more, in New York City, cash is still king in many respects. This is largely due to the influence of financial services and professional services firms, who are just as eager to attract much-needed digital and technical talent.

But what Silicon Alley and Silicon Valley clearly share is an increasingly fervent competition for talent, which makes the cross-pollination of people, practices and capital across the two regions a now daily occurrence. This dynamic was top-of-mind for the 60-plus human resources leaders we recently connected with at Radford's East Coast Technology Sector Meeting in New York City.

The private and public companies represented at our meeting reflect the wide diversity of the technology market along the east coast. Attendees included HR professionals from small venture-funded start-ups in Brooklyn, innovation outposts for major technology players based in Silicon Valley, Europe and Asia, and a large number of general industry companies building their own in-house digital capabilities. All of these organizations are searching for employees with the same specialized skills, such as software developers, data scientists, systems programmers, UI/UX designers, product managers and more. Against this backdrop, we discussed and identified several key differences and similarities in compensation trends and practices between Silicon Alley and Silicon Valley.

While non-traditional technology companies are major players in both hubs, their impact on Silicon Alley is bigger.

The concept of industry convergence around technology and digitally-enabled business models and processes is a phenomenon that reverberates throughout the country and world. While Silicon Valley is certainly not immune to this trend (and is leading the charge in many respects) from a talent attraction and retention standpoint, it is still a highly concentrated hub for "pure" technology firms operating with very similar compensation practices and philosophies. In contrast, Silicon Alley has become a hub for just about any industry with the addendum of "tech" attached to it— Fin-tech, Ed-tech, Ad-tech, Health-tech, and the list goes on. All of these subindustries are competing for workers who know how to code, interpret data and build e-commerce ecosystems, but they don't

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necessarily approach compensation in the same ways. This milieu is made only more complex by the mix of players— ranging from start-ups to general industry giants— entering these spaces. As a result, workers in Silicon Alley enjoy more opportunities to jump from industry to industry; but, HR and compensation practitioners are forced to navigate a much wider array of compensation approaches when attracting and retaining talent.

Forecasted hiring in Silicon Alley is significantly more aggressive than Silicon Valley.

According to recent data from the Radford Global Workforce Trends Report, a full 40% of technology companies in New York City plan to grow their workforce by more than 10% in the next 12 months. This compares to only 21% of companies in the San Francisco Bay Area. With so many companies in New York City planning for hyper workforce growth, employee turnover will undoubtedly increase and the strain of adding new heads while also replacing lost employees could become severe for some firms.

HR and compensation professionals must be prepared for this reality and ensure they have appropriate talent acquisition resources and pay policies in place to efficiently onboard and retain key talent. And of course, even though Silicon Valley has fewer companies planning for hyper headcount growth relative to New York City, more than half of technology companies in the region are planning for growth, which means Silicon Alley and Silicon Valley will continue to go head-to-head for talent.

Figure 1

Expected Workforce Changes

Region	Increase more than 10%	Increase up to 10%	Stay the same size	Decrease in size
New York Metro (Silicon Alley)	40%	10%	40%	10%
San Francisco Bay Area (Silicon Valley)	21%	36%	37%	6%
East Coast Tech	18%	23%	52%	6%
All US Tech	17%	33%	45%	6%

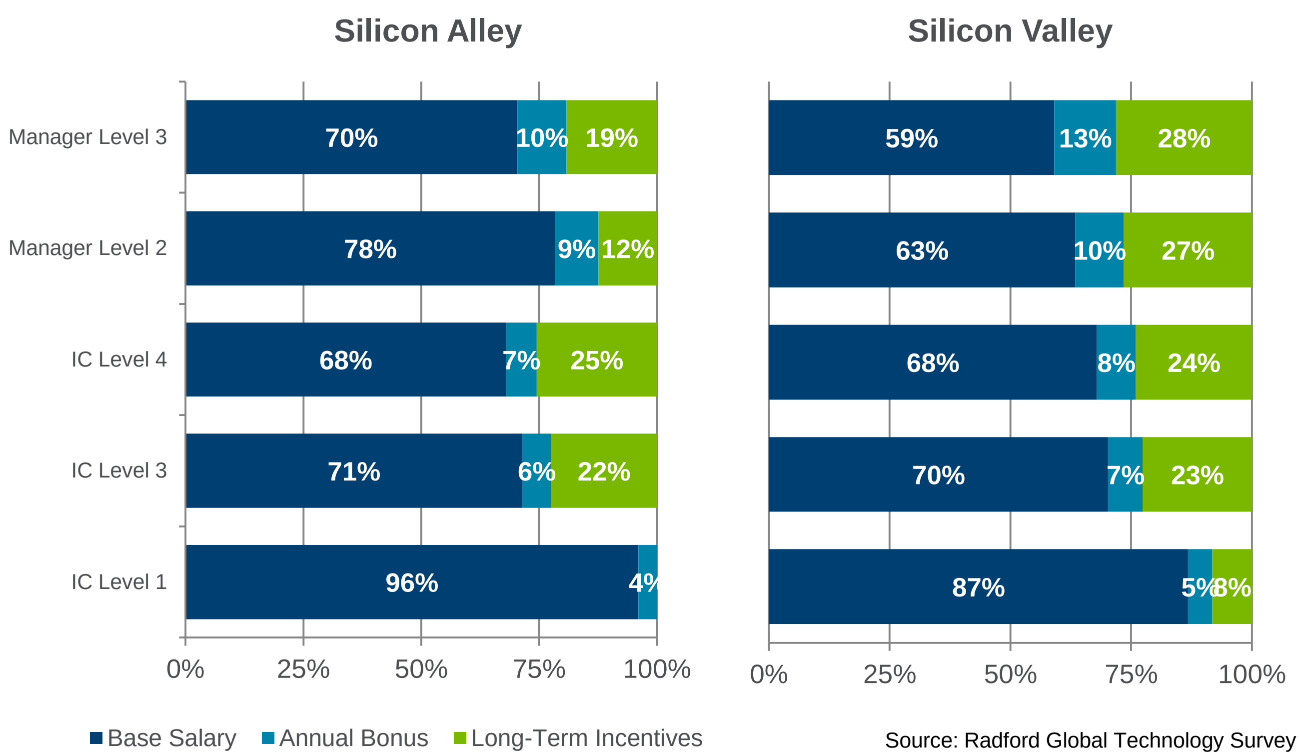
Source: Radford US Technology Trends Report, Q2 2017 and custom Radford US Technology Trends Reports, Q2 2017

There are still meaningful differences in equity incentive practices between Silicon Alley and Silicon Valley.

Relative to Silicon Valley, companies in Silicon Alley are more likely to have lower long-term incentive eligibility rates, smaller equity award targets and a higher proportion of equity delivered through performance shares. Additionally, these trends are generally observed at all employee levels. Executives, managers and individual contributors in Silicon Alley all tend to receive less equity on average than their counterparts in Silicon Valley and thus rely more on cash compensation. Figure 2 illustrates how these patterns play out in the pay mix for software development managers and engineers in both markets. As you'll see below, while there is a fairly high degree of alignment in pay practices for senior individual contributor engineers (IC Level 4) in Silicon Alley and Silicon Valley, there is much less so for entry-level engineers and managers. Additionally, there is a much clearer sense of progression in how long-term incentives are used and weighted in Silicon Valley as employees migrate up through career levels. In Silicon Alley, due to the diversity of companies in the region, it is more of a mixed bag.

Figure 2

Average Pay Mix for Software Development Managers and Engineers



Source: Radford Global Technology Survey

Of course, while these stereotypes are not universally true or nearly as stark as in past years, they remain in effect for several reasons. These factors include a wider diversity of companies in and around New York City as well as the backgrounds of executives, board members and investors in the region who have a large influence corporate cultures and compensation philosophies. We explore this last point in greater detail below and in our **recent infographic** on how executive compensation practices differ between public companies in Silicon Alley and Silicon Valley.

The profile of the average technology executive is different in the two hubs.

Silicon Alley executives tend to be older and more likely to come from industries outside of the technology sector. This means east coast executives may be less versed in compensation practices common among traditional technology companies, as well as less inclined to promote broad-based use of equity awards. Figure 3 below highlights some of the key differences between executives in Silicon Alley and Silicon Valley.

Figure 3

Make-Up of Silicon Alley vs. Silicon Valley Executives

Silicon Alley	Silicon Valley
▪ 63% of executives (VP and higher) do not have technology experience	▪ The vast majority of executives come from a technology background
▪ The average founder is 31 years old, with 25% over age 35	▪ The average founder is 27 years old

Source: Radford Global Technology Survey

Next Steps

As New York becomes an increasingly prominent hub for technology companies and talent, we can expect compensation practices in Silicon Alley and Silicon Valley to continue converging. In particular, we already see clear signs that overall pay levels are rising at a faster pace for certain jobs than the San Francisco Bay Area and that equity awards are getting larger and more broad-based in and around New York City. However, this doesn't mean Silicon Alley companies will (or should) blindly adopt practices just because they are common in Silicon Valley. The talent market in New York City is unique and companies must remain grounded in the realities of the local markets in which they operate. Silicon Alley companies have an opportunity to move beyond a war for talent based purely on monetary concerns by continuing to cultivate cultural norms, employee value propositions and total rewards approaches that are intentionally distinct from Silicon Valley.

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To speak with a member of our compensation consulting group about equity plan design, executive pay, compensation benchmarking, or other questions, please write to consulting@radford.com. .

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