



**A**s organizations finalize their salary-increase budgets for 2012, Sibson Consulting's research indicates that budget levels will increase slightly over 2011 results, but remain well below pre-2008 recession levels. This indicates that organizations are continuing to proceed with caution as they enter the new year.

### **Sibson's Annual Compensation Planning Analysis**

Each year, Sibson's Annual Compensation Planning Analysis of projected and actual salary-increase budgets and structure salary-range adjustments provides data for three broad job classifications: executive, exempt and non-exempt. Sibson reviews 11 distinct industry groups: banking and finance, education, health services, information services/telecommunications, insurance, manufacturing, nonprofit, retail, services, transportation and utilities.

### **Salary-Increase Budgets**

In 2011, salary-increase budgets rose to 2.5 to 2.7 percent. Although this was well above 2010 actual levels, it was still below historical levels, which, for the previous decade, were typically in the range of 3.5 to 4.5 percent.

For 2012, the upward trend is expected to continue, with budgets rising another 20 basis points (bps<sup>1</sup>), to 2.7 to 2.9 percent. (See Figure 1 on the next page.) These small increases reflect business leaders' sentiment that most companies feel comfortable enough with their own financial forecasts to increase their fixed payroll costs, despite great global uncertainty (e.g., European sovereign debt, sluggish gross domestic product (GDP) forecasts, the U.S. political stalemate,<sup>2</sup> the November 2012 elections and potential changes to the tax code).

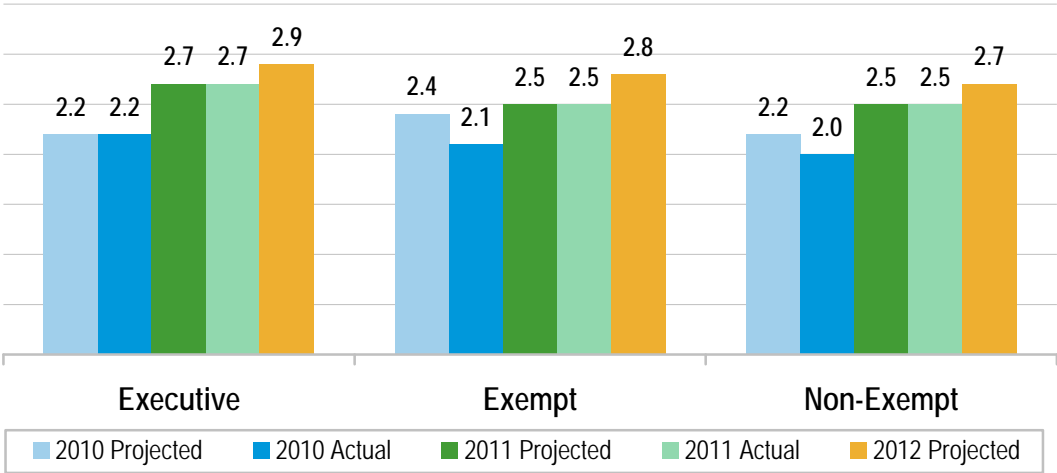
For the first time in several years, actual salary-increase budgets for 2011 were exactly as projected for executive, exempt and non-exempt employees. This reflects companies staying true to their conservative budget forecasts.

For the second year in a row, executive increases are projected to be higher than those for other populations in 2012. This differs from 2009 and 2010, when executive salary increases were either lower or the same as those for other employee segments.

<sup>1</sup> As a reminder, 10 bps equals 0.1 percent.

<sup>2</sup> The U.S. political stalemate is exemplified by the recent failure of the now-disbanded debt super-committee to reach an agreement and Congress's inability to pass a jobs bill.

**Figure 1: Average Increases in Salary Budgets for All Industries by Broad Job Classification**

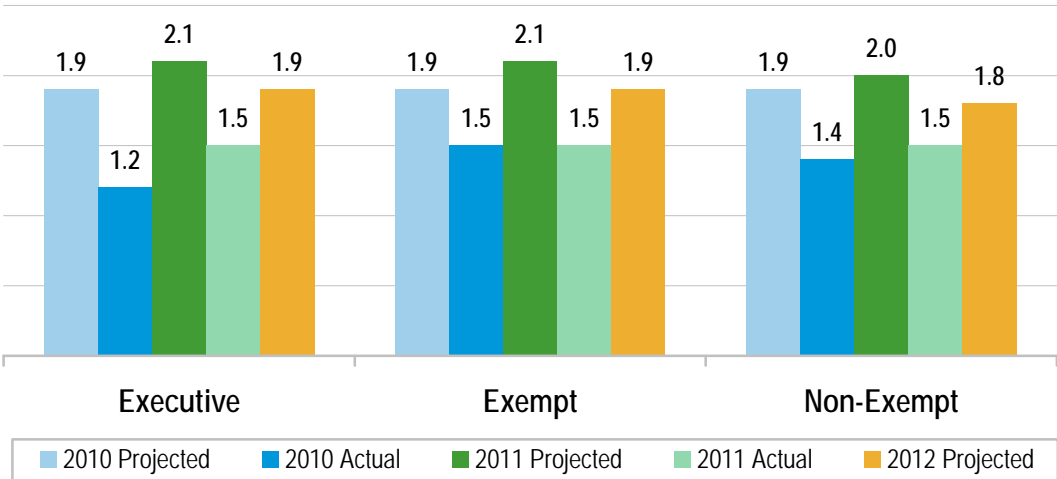


Source: Sibson Consulting

**Salary-Range Increases**

Salary-range increases are also expected to rise in 2012, but by slightly less than one-half of a percentage point, to approximately 1.9 percent. (See Figure 2 below.) Salary-range adjustments in 2011 were 25 to 30 percent lower than projected. This likely reflects typical postponement of range increases, which helps moderate salary expenses for the highest-paid employees in the various pay bands.

**Figure 2: Average Salary-Range Adjustments for All Industries by Broad Job Classification**



Source: Sibson Consulting

### Industry-Specific Data

Key findings from Sibson's Annual Compensation Planning Analysis about industry-specific data follow:

- Industries with the lowest actual salary-increase budgets and range adjustments were banking and finance, education and nonprofit. Actual salary increases for these industries were 15 to 25 percent lower than the cross-industry average for all employee segments. (See Figure 3 below.)
- Industries with the highest actual salary-increase budgets were health services, services and utilities, with increases of up to 10 percent above the cross-industry average. Most of these premiums are reflected in the executive and exempt segments. There was little upside variation in the non-exempt workforce.
- The education and nonprofit industries continue have the lowest 2012 projected salary increases; information services and utilities have the highest.

**Figure 3: Average Increases in Salary Budgets and Salary-Range Adjustments by Industry and Broad Job Classification**

|  | Salary-Budget Increases |                 |             |                 | Salary-Range Adjustments |                 |             |                 |
|--|-------------------------|-----------------|-------------|-----------------|--------------------------|-----------------|-------------|-----------------|
|  | 2010 Actual             | 2011 Projection | 2011 Actual | 2012 Projection | 2010 Actual              | 2011 Projection | 2011 Actual | 2012 Projection |
| <b>Banking and Finance</b>                     |                         |                 |             |                 |                          |                 |             |                 |
| Executive                                      | 2.1                     | 2.6             | 2.2         | 2.9             | 1.1                      | 2.0             | 1.3         | 1.8             |
| Exempt   | 2.2                     | 2.4             | 2.2         | 2.9             | 1.3                      | 2.0             | 1.3         | 1.8             |
| Nonexempt                                      | 2.1                     | 2.3             | 2.1         | 2.9             | 1.3                      | 2.0             | 1.3         | 1.7             |
| <b>Education</b>                               |                         |                 |             |                 |                          |                 |             |                 |
| Executive                                      | 1.4                     | 1.6             | 2.1         | 2.4             | 1.0                      | 1.1             | 0.7         | 1.3             |
| Exempt   | 1.5                     | 1.5             | 1.9         | 2.0             | 1.0                      | 1.7             | 1.0         | 1.5             |
| Nonexempt                                      | 1.7                     | 1.5             | 1.9         | 2.0             | 1.0                      | 1.5             | 0.9         | 1.4             |
| <b>Health Services</b>                         |                         |                 |             |                 |                          |                 |             |                 |
| Executive                                      | 2.1                     | 2.7             | 3.0         | 3.1             | 1.5                      | 1.9             | 1.5         | 1.9             |
| Exempt   | 2.2                     | 2.3             | 2.7         | 2.7             | 1.5                      | 1.9             | 1.3         | 1.8             |
| Nonexempt                                      | 2.3                     | 2.3             | 2.5         | 2.6             | 1.5                      | 1.9             | 1.3         | 1.7             |
| <b>Information Services/Telecommunications</b> |                         |                 |             |                 |                          |                 |             |                 |
| Executive                                      | 1.8                     | 2.7             | 2.8         | 3.1             | 0.6                      | 1.4             | 0.8         | 1.8             |
| Exempt   | 1.8                     | 2.7             | 2.7         | 3.0             | 0.6                      | 1.8             | 1.3         | 1.8             |
| Nonexempt                                      | 1.6                     | 2.9             | 2.7         | 3.0             | 0.5                      | 1.6             | 1.2         | 1.5             |
| <b>Insurance</b>                               |                         |                 |             |                 |                          |                 |             |                 |
| Executive                                      | 1.9                     | 2.9             | 2.7         | 2.9             | 1.1                      | 2.0             | 1.5         | 1.8             |
| Exempt   | 2.0                     | 2.5             | 2.6         | 2.9             | 1.3                      | 2.1             | 1.5         | 1.8             |
| Nonexempt                                      | 2.5                     | 2.5             | 2.6         | 2.8             | 1.4                      | 2.1             | 1.5         | 1.8             |

Compensation Planning 2012:  
Proceed with Caution

|                       | Salary-Budget Increases |                 |             |                 | Salary-Range Adjustments |                 |             |                 |
|-----------------------|-------------------------|-----------------|-------------|-----------------|--------------------------|-----------------|-------------|-----------------|
|                       | 2010 Actual             | 2011 Projection | 2011 Actual | 2012 Projection | 2010 Actual              | 2011 Projection | 2011 Actual | 2012 Projection |
| <b>Manufacturing</b>  |                         |                 |             |                 |                          |                 |             |                 |
| Executive             | 2.5                     | 2.7             | 2.8         | 3.0             | 1.5                      | 2.2             | 1.6         | 2.0             |
| Exempt                | 2.2                     | 2.4             | 2.8         | 2.8             | 1.7                      | 2.2             | 1.7         | 2.0             |
| Nonexempt             | 2.3                     | 2.4             | 2.7         | 2.8             | 1.6                      | 2.1             | 1.6         | 1.9             |
| <b>Nonprofit</b>      |                         |                 |             |                 |                          |                 |             |                 |
| Executive             | 2.1                     | 2.7             | 2.2         | 2.8             | 1.8                      | 2.0             | 1.4         | 1.6             |
| Exempt                | 2.4                     | 2.9             | 2.0         | 2.7             | 1.8                      | 2.1             | 1.2         | 1.5             |
| Nonexempt             | 2.3                     | 2.7             | 1.9         | 2.5             | 1.9                      | 2.1             | 1.1         | 1.4             |
| <b>Retail</b>         |                         |                 |             |                 |                          |                 |             |                 |
| Executive             | 2.0                     | 2.4             | 2.6         | 2.8             | 1.0                      | 2.4             | 1.1         | 1.6             |
| Exempt                | 2.3                     | 2.2             | 2.6         | 2.7             | 1.0                      | 2.2             | 1.4         | 1.7             |
| Nonexempt             | 2.3                     | 2.3             | 2.5         | 2.7             | 1.1                      | 2.3             | 1.4         | 1.6             |
| <b>Services</b>       |                         |                 |             |                 |                          |                 |             |                 |
| Executive             | 1.6                     | 2.9             | 2.9         | 3.1             | 1.3                      | 2.2             | 1.4         | 1.8             |
| Exempt                | 2.3                     | 2.5             | 2.7         | 2.8             | 1.6                      | 2.2             | 1.6         | 1.8             |
| Nonexempt             | 2.1                     | 2.4             | 2.6         | 2.7             | 1.4                      | 2.2             | 1.6         | 1.8             |
| <b>Transportation</b> |                         |                 |             |                 |                          |                 |             |                 |
| Executive             | 1.5                     | 2.5             | 2.6         | 2.9             | 1.1                      | 2.0             | 0.8         | 2.0             |
| Exempt                | 1.7                     | 1.9             | 2.6         | 2.7             | 1.0                      | 2.1             | 0.8         | 2.1             |
| Nonexempt             | 1.6                     | 1.7             | 2.5         | 2.6             | 1.0                      | 2.0             | 0.8         | 1.9             |
| <b>Utilities</b>      |                         |                 |             |                 |                          |                 |             |                 |
| Executive             | 2.3                     | 3.0             | 2.9         | 3.1             | 1.3                      | 2.1             | 1.6         | 2.0             |
| Exempt                | 2.3                     | 2.5             | 2.7         | 2.9             | 1.5                      | 2.1             | 1.6         | 2.0             |
| Nonexempt             | 2.3                     | 2.5             | 2.7         | 2.9             | 1.6                      | 2.1             | 1.6         | 1.9             |

Source: Sibson Consulting

### Inflation

While employers are primarily concerned with the cost of talent rather than the cost of living, in January through September 2011, the Consumer Price Index rose 3 percent over the same period in 2010. This compares to a 1.8 percent increase for the same period between 2010 and 2009. Although the rate of inflation continues to be historically low, it is in line with actual 2011 salary-increase budgets, which means purchasing power will remain relatively stable year-over-year.

## Employee Prioritization and Differentiation

Organizations should continue to consider salary budgets as an investment in talent and prioritize allocations to their top performers.<sup>3</sup> It is important to remember that prioritization is even more crucial in difficult times when companies still need to reward their best and brightest, but have a relatively small pool of money with which to work.

Companies should not give up on pay differentiation, even if budgets are small. One approach is to provide salary increases only for certain segments of employees, such as top performers, employees in critical jobs or those whose compensation is below market. A second approach is to carve out a portion of the budget and deliver that exclusively to the highest-performing employees. This ensures a premium investment is made in those few employees who truly create value.

Sibson research indicates that top-performing pay-for-performance companies are nearly twice as likely to give their best performers merit increases that are 3 percent or more than what they give their average employees. Over the past few years, when merit increase budgets were approximately 2.5 percent or less, top performers at these companies were twice as likely to see increases of 5 percent of base salary or more. This shows that while differentiation may be difficult, it is possible.

## The Role of Communication

A sound communications plan is a vital component in relaying key messages to employees and ensuring their continued engagement. According to Sibson's latest *Rewards of Work Study* (<http://www.sibson.com/publications-and-resources/surveys-studies/?id=1507>), employees who have a good understanding of the compensation process and think decisions are made "fairly" are substantially more satisfied with their compensation outcomes, even if the increase levels are lower. This highlights the importance of managing communications and creating transparency in the compensation system.

The implication is clear: organizations that manage compensation in a "black box" face a headwind with regard to pay satisfaction. Conversely, those that communicate their pay philosophy and the rationale for pay decisions and place appropriate context on how they arrive at individual decisions are more likely to have employees who are satisfied with their compensation.

Organizations can better satisfy their workforce with a smaller investment if the process is clearly communicated and administered consistently. This holds true both when salary budgets are high and when they are low, as many employees, especially top performers, look not only at the absolute amount of pay delivered, but also at pay increases relative to peers.

## Executive Compensation Implications

Projected 2012 executive salary increases are higher than corresponding increases for the exempt and non-exempt populations. This is the second year in which companies returned to the pre-recession practice of having their executive increases outpace those in other employee segments.

<sup>3</sup> For real-world strategies for optimizing investment decisions, see the articles "Reducing the Sense of Entitlement: Pay for Performance for 2010 and Beyond" ([http://www.sibson.com/publications/perspectives/volume\\_17\\_issue\\_2/entitlement.html](http://www.sibson.com/publications/perspectives/volume_17_issue_2/entitlement.html)) in the July 2009 issue of *Perspectives* and "Small Packages = Big Bucks: Making Merit Matter" ([http://www.sibson.com/publications/perspectives/volume\\_15\\_issue\\_1/making\\_merit\\_matter.cfm](http://www.sibson.com/publications/perspectives/volume_15_issue_1/making_merit_matter.cfm)) in the January 2007 issue of *Perspectives*.

The Wall Street Reform and Consumer Protection Act (Dodd, Frank) required public companies to give shareholders their first non-binding “say-on-pay” vote on executive pay in 2011. This up-or-down vote served as a litmus test of the organization’s executive pay strategy, designs and levels. Companies that did not do well on their first say-on-pay votes need to take steps to make their executive pay practices unassailable. This includes increasing communications with institutional shareholders, enhancing program disclosures within proxy statements and compensation discussions and analyses and phasing out controversial designs (e.g., lucrative perquisites, severance arrangements and change-in-control practices).

### **Predictions**

Sibson estimates that 2012 actual salary-budget increases will likely approximate or be slightly below projected results. This projection is based on slow growth projections for the macro global economy, but could quickly be derailed by any future volatility generated by current hot-button issues including concerns over European debt, uncertainty regarding future U.S. tax rates, the volatility of the stock market, continued high unemployment and the upcoming U.S. elections. Organizations have shown that should any of the above factors affect their growth and profitability forecast in any way, they will not hesitate to reduce their budgets or eliminate them altogether. A lesson learned from 2009 is that the amount budgeted may not be the amount spent.

Sibson also expects modest inflation in 2012, such that employees’ purchasing power will remain relatively unchanged from 2011 levels. With continued high unemployment and conservative consumer spending, any movements in the cost of labor and the cost of living are likely to be congruent.

### **About the author:**

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[http://www.sibson.com/publications/perspectives/Volume\\_19\\_Issue\\_3/compensation-planning.html](http://www.sibson.com/publications/perspectives/Volume_19_Issue_3/compensation-planning.html)

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