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# Debunking Common Compensation Myths

*From gender pay equity to benchmarking pay at the 75th percentile, we break down commonly held beliefs in the compensation profession to separate fact from fiction.*

Among compensation professionals, there are a number of widely-accepted “truths” that have become institutionalized within the community. Like every other aspect of life, if you hear something over and over again, you tend to stop questioning its validity and accept it as a matter of fact. However, in our experience as compensation data providers and advisors, many of these so-called truths don’t actually stand up to scrutiny when exposed to detailed investigation. In an attempt to dispel a few of these misnomers, we’ve created a list of the top five most common myths we encounter in our day-to-day work.

After reading the article below, let us know what you think by writing to consulting@radford.com. We’d love to know if you agree or disagree, and if you think we missed an obvious choice that should be in the top five.

## Myth #1: Country-level data is good enough

Outside of the United States (US), it’s not as common as it should be to assess pay practices using regional or city-level data. In larger countries with geographically dispersed technical talent, pay is just as likely to be influenced by local economic factors as in the US where geographic differences are assumed to be important considerations. It’s imperative to consider the local view.

“Why?” you might ask. Figures one and two below sum up the answer pretty well. From Europe to Asia to North America, we see a significant amount of differentiation of pay within countries, especially when comparing major technology hubs to the wider country. (See our article *It’s Time for Technology Companies to Take a More Nuanced Approach to Pay in China* for more information about how this is occurring in China’s technology sector.)

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**Figure 1**

**Regional vs. Country Geographic Pay Differentials for Management Roles**

| Job Function/Level | SF Bay Area vs. US | London vs. UK | Munich vs. Germany | Hyderabad vs. India | Tier 1 Cities vs. China | Tier 2 Cities vs. China |
|---|---|---|---|---|---|---|
| Mgmt. 5 – Technical | 113% | 107% | 106% | 104% | 102% | 79% |
| Mgmt. 5 – Non-Technical | 114% | 103% | 103% | 101% | 102% | 88% |
| Mgmt. 3 – Technical | 124% | 116% | 99% | 100% | 108% | 80% |
| Mgmt. 3 – Non-Technical | 119% | 110% | 102% | 99% | 110% | 80% |

Source: Radford Global Technology Survey - Custom Report - September 2017

**Figure 2**

**Regional vs. Country Geographic Pay Differentials for Professional Roles**

| Job Function/Level | SF Bay Area vs. US | London vs. UK | Munich vs. Germany | Hyderabad vs. India | Tier 1 Cities vs. China | Tier 2 Cities vs. China |
|---|---|---|---|---|---|---|
| Prof. 5 – Technical | 113% | 113% | 108% | 99% | 101% | 86% |
| Prof. 5 – Non-Technical | 113% | 106% | 109% | 86% | 102% | 79% |
| Prof. 3 – Technical | 114% | 114% | 114% | 103% | 109% | 78% |
| Prof. 3 – Non-Technical | 117% | 105% | 103% | 100% | 108% | 78% |

Source: Radford Global Technology Survey - Custom Report - September 2017

We hear similar feedback from clients “on the ground.” One client told us their regional managers in Hyderabad, India, felt they were being paid below market rate. In this case, a closer inspection of the data shows that pay is both higher and lower than the country average depending on the job function and level. London and Munich, on the other hand, generally have much higher premiums across all jobs than the national average. In some cases, multinational companies don’t differentiate within a country because they want to be flexible and encourage employee mobility. However, if domestic companies are more attuned to local conditions and are keeping up with increasing pay premiums, multinationals will be at a competitive disadvantage.

## Myth #2: It’s impossible to differentiate merit increases

Many people think that as long as merit increase budgets hold steady at 3% on average there is little room to differentiate base salary increases for high performers in any meaningful way. But that’s not true. We analyzed a sample of 60 technology companies who use a five point performance rating system and who successfully granted salary increases to top-rated employees that were twice the size of their “meets expectations” rated employees. These companies didn’t have higher salary budgets either. They were able to differentiate awards by giving a smaller increase to their employees who received a rating of 3, and withholding any increase to a slightly larger percentage of their population than the typical company.

Before you worry that this type of approach will result in attrition for the people not receiving anything, consider these two facts. One, employees not receiving an increase at all should be your lowest performers, who you are likely considering managing out of the organization anyway. Two, a majority of employees still receive something. The broader market gives about 90% of their employees a salary increase every year. That only drops to 87% among this subset of companies we studied.

## Myth #3: To target the 75th percentile in total pay, you need to benchmark at the 75th percentile for each component of pay

When HR and compensation professionals want to benchmark a certain hot job (or job located in a hot market) at the 75th percentile, they tend to benchmark each component of total direct compensation (short-term and long-term incentives and base salary) at the 75th percentile. This seems like a straight-forward approach, but here's the problem. Not every employee is eligible for every component of pay. Furthermore, the same person may not receive a top level salary and a large cache of incentive money or equity.

In practice, if you benchmark each component of compensation at the 75th percentile, you're going to end up offering a total compensation figure that is closer to (or may even exceed) the 90th percentile of pay! Instead, determine the prevalence of incentive eligibility for the job you're benchmarking (as not all employees are eligible for every incentive) and then consider whether you want to emphasize some component of pay more highly. This level of analysis will take more time, but you'll get more accurate results and spend less overall.

## Myth #4: The gender pay gap inside companies is 20%

In media and government reports, its common to hear that women make 20% to 30% less than men, and while statistics of this nature are true in a very broad sense—for example, when comparing all full-time working women to all full-time working men across the entire US workforce—they can obscure the true drivers of gender pay gaps within organizations. We don't say this lightly, as we have zero intention of being apologists for the status quo. Pay inequities between women and men are a real and persistent issue, and we are actively working with a number of our clients to address this challenge head on. However, for business leaders and HR professionals, the path to truly eliminating pay inequities starts with understanding the limitations of overly-broad and simplistic comparisons of pay. In other words, approaching your first gender pay equity analysis like just any other compensation planning project isn't a recipe for long-term success.

Ultimately, to change policy and behavior, far deeper analysis is needed, with statistical controls in place to account for the impact of geographies, job types, job levels, individual performance, education, work experience, starting pay levels and a wide range of corporate policies, among other variables. Only after examining all of these inputs through the lens of a multi-regression analysis can companies begin to quantify unexplained gender pay gaps (i.e., situations where the only variable left that can explain differences in pay is gender itself) and asses the relative influence of specific compensation, talent management and HR policies on pay outcomes. We like to think of this exercise as peeling back the layers of an onion to expose the specific, and often numerous, issues that contribute to aggregate differences in pay. Some of these layers will point to justifiable or intended differences in pay outcomes for all employees, not just women, and some of these layers will expose problematic practices where fixes in policy, behavior or both are needed.

Often, unexplained gender pay gaps within individual companies tend to be in a range of 2% to 5%, which while much smaller than the figures cited in the press, can still have a lasting and significantly detrimental impact on wage progression and lifetime earnings. And again, we don't say this to minimize the issue, but rather to advise companies to look at all of their data carefully, and to work outside the confines of standard pay analyses to find and fix specific root causes. To learn more about our point of view and approach on this issue, visit our **gender pay equity** page.

## Myth #5: Compensation surveys tell you how much to pay

While we find it flattering that Radford data could be taken as the gospel, the reality is, it's you— your organization, your leaders, and your expertise— that is best suited to take survey data and apply it to your own situation. Market data can tell you what the salary for a junior software engineer is in Austin, Texas, but that doesn't mean that's what you have to pay. You may decide to pay less because your benefits are rich; or maybe you're in startup mode and lean more heavily on equity than you do cash. The bottom line is this: Compensation professionals are tasked with designing a rewards package that resonates with your employees and is competitive in attracting and retaining the type of talent your team requires. And that's all while staying within budget, of course. No wonder we think it takes miracle workers to accomplish our objectives!

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