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How fair pay perception and pay transparency combat turnover

Employee turnover is a serious concern for businesses, especially organizations looking to grow after a difficult year. This report looks at the impact of fair pay perception and pay transparency on job seeking behavior, as well as turnover rates and strategies organizations use to retain employees.

Executive summary

Retention of employees is important to most businesses. It takes time and effort to train workers and productivity suffers when knowledgeable employees leave the organization. Turnover can also have an impact on morale and cause other employees to consider whether they should also be exploring opportunities, resulting in waves of employees leaving and a mad scramble to retain current employees and hire new ones to fill the gaps.

In 2021, organizations are feeling even more pressure than usual as the economy recovers from the COVID-19 pandemic. Many organizations had to make tough choices in 2020, including deferring pay raises, freezing pay, cutting pay, and laying off workers. Human Resources also faced increased demands for workplace safety, healthcare benefits, sick pay, workplace flexibility, and remote work in the face of a pandemic.

Organizations are now struggling to hire all the positions that were laid off last year to meet the demand for business growth. At the same time, they also need to retain their current workforce and satisfy expectations that employees have for the workplace following the devastation of last year. If pay increases at the beginning of the year did not make up for pay raise deferments, pay freezes, or pay cuts in 2020 — or if workplace safety, flexibility, and benefits are underwhelming — employees may be more motivated to seek out opportunities in this hot new market.

A critical component of retaining employees is their compensation. Unfortunately, most organizations do a poor job at pay communications, meaning that even when employees are paid well, they may not **know** that they are paid well, leading to turnover.

This is not conjecture.

Payscale's research found that even when employees are paid **above** market, employees tend to believe they are paid **below** market. Payscale's research also found that when employees don't feel they are fairly paid, they are more likely to leave. Finally, our research finds that higher pay transparency decreases likelihood that employees will seek a new job, painting a clear picture for what organizations can do to reduce turnover and increase retention.

Our analysis was conducted using 383,609 responses to Payscale's online salary survey taken between May 2017 and May 2021, where respondents provided salary, job, and demographic information and responded to the following questions:

- **"How do you think your current pay compares to other employees like you? Below Average, Average, Above Average"**
- **"In the next 6 months, I plan on actively seeking new jobs outside of my current company: Yes or No"**
- **"How pay is determined at my company is a transparent process" – likert scale 1-5, where 1 is strongly disagree and 5 is strongly agree.**

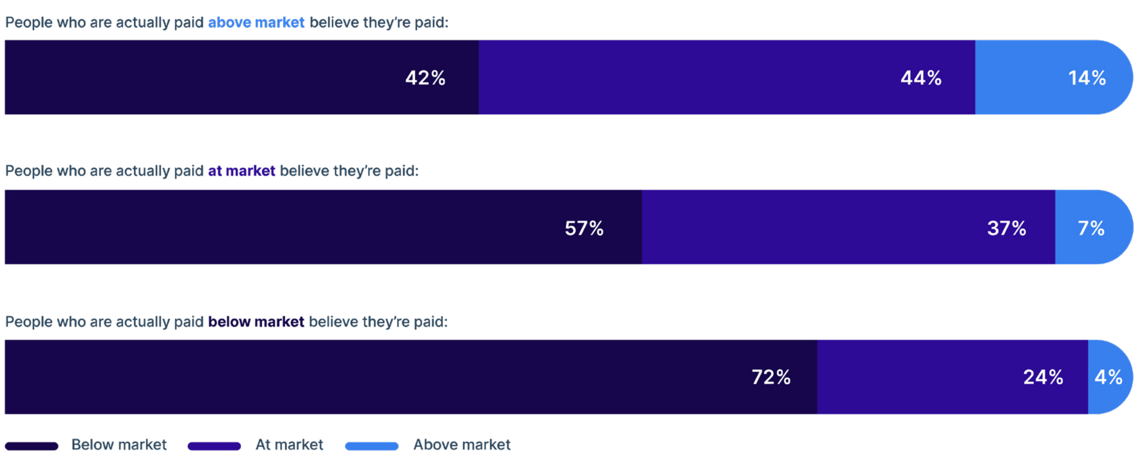
1

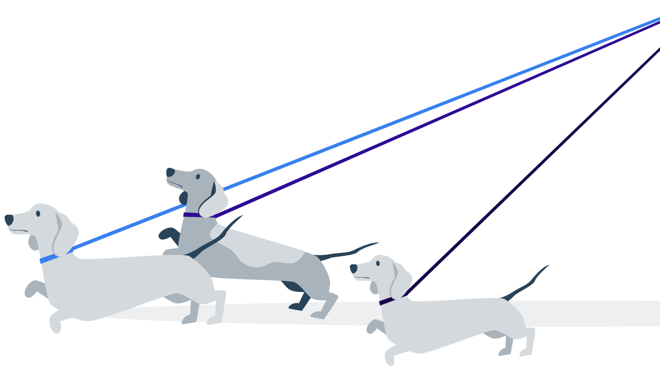
Employees don't know if they are paid fairly.

Compensation is used to attract and retain talent, but most employees don't know whether they are paid fairly and tend to assume they are underpaid, even when they are paid above market.

Payscale's research shows that in 2021, 57 percent of employees who are paid at market believe they are paid below market. Of employees who are paid above market, 42 percent believe they are paid below market. For people who are paid below market, 72 percent know or suspect they are paid below market. All employees who are paid below market or perceive they are paid below market are at risk of turnover.

Do people know if they are paid fairly?

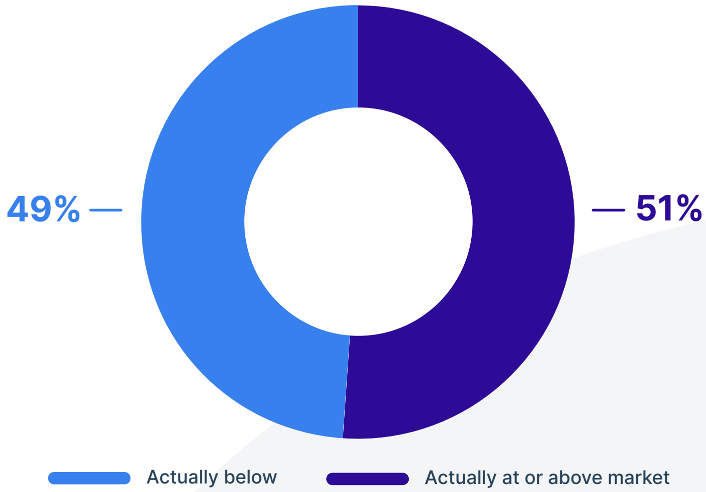




We can also look at this data in the reverse. For all employees who believe they are paid below market (adding up all the first bars), 49 percent are actually paid below market while 51 percent are paid either at market or above market. What this means is that organizations are doing a poor job of communicating to roughly half the workforce that their pay is market competitive.

These high numbers are concerning for a variety of reasons, not least of which is that it indicates that pay communications are woefully underemphasized in many businesses. It also indicates the risk that organizations are taking by not putting more investment in their pay strategies and pay communications so that valued employees know that they are valued.

Those who think they're paid below market are...

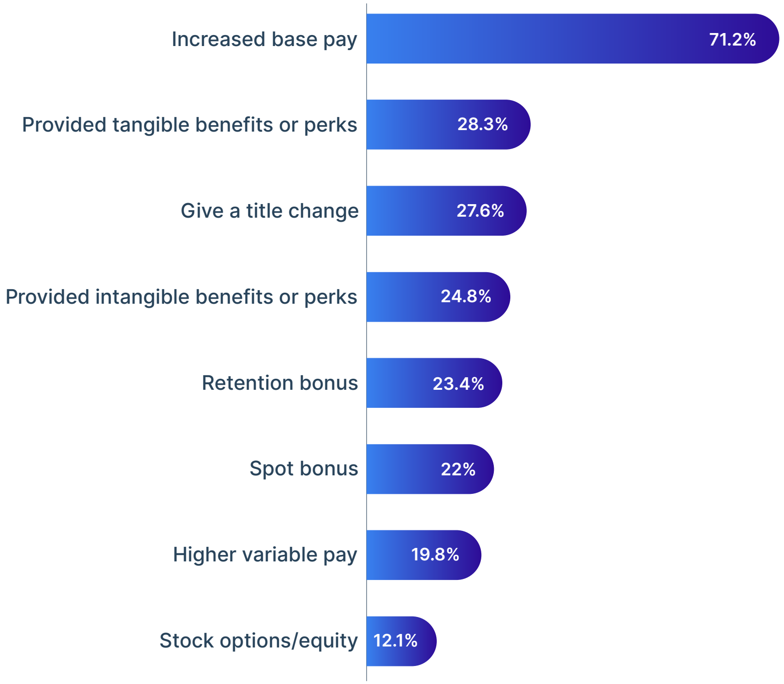


Compensation is a critical aspect of employee retention and engagement

Employee retention is important for business stability and growth. Hiring and training employees is time consuming and expensive and productivity can be lost in the process, especially when turnover is high. In addition, when employees leave, they take knowledge with them. Sometimes the loss of that knowledge can be devastating to business operations, especially when long-tenured employees leave.

For this reason, strategies to retain employees is important to most organizations. According to **Payscale's 2021 Compensation Best Practices Survey**, the top strategy to retain employees is to increase base pay. This is particularly critical when employees are underpaid, and especially when they believe they are underpaid. However, this strategy is only partially effective if it does not come with pay communications to explain pay increase in relation to the market data and differentials that inform it.

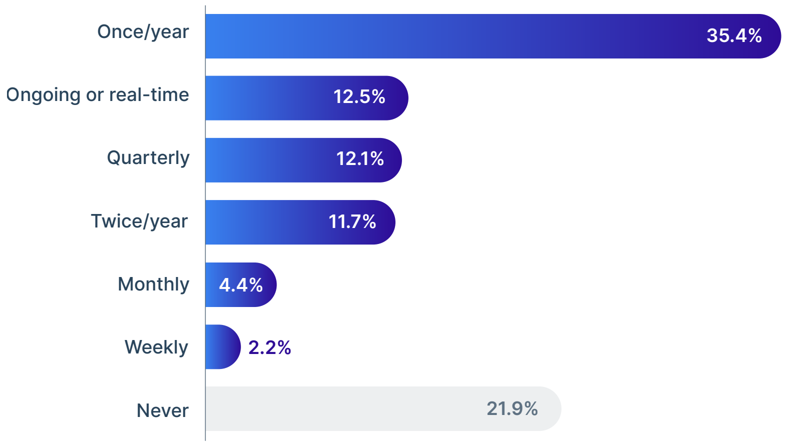
What strategies have you used to retain your employees?



Engagement surveys can inform effective retention strategies

Another strategy that organizations can undertake to mitigate turnover is to run engagement surveys. An engagement survey is a useful tool in gathering data on employee morale and issues that may be impacting productivity by asking employees about their satisfaction with their job, their work, the outlook of the business, their teams and managers, and so on. According to **Payscale's Compensation Best Practices Survey**, 35 percent of organizations run an engagement survey at least once a year. However, 22 percent of organizations never do.

How frequently do you measure employee engagement?



In addition, when employers conduct engagement surveys, the majority don't ask employees about their satisfaction with their compensation. Of course, employee disengagement has many triggers. Employees might feel disengaged because their work isn't satisfying, the team isn't getting along, the manager relationship is strained, the business is perceived to be doing poorly, or because they want more opportunity for growth.

Do you survey employees on their satisfaction with compensation specifically?

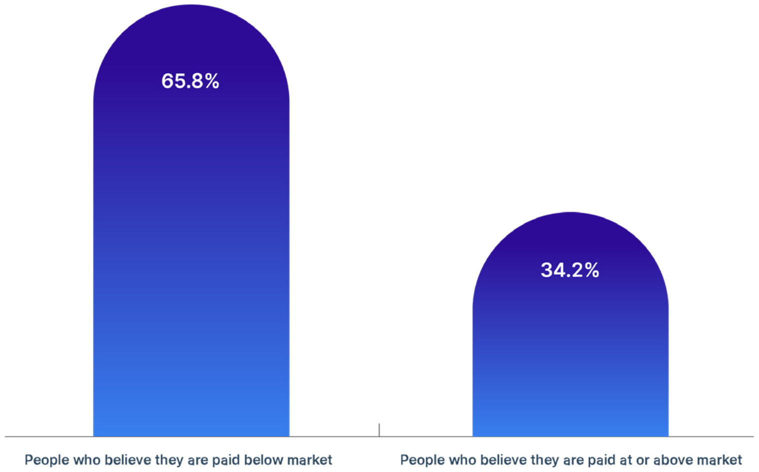
It should be noted that high engagement with everything except compensation doesn't necessarily mean that employees won't seek other opportunities. Employees can be actively committed to their work, their team, their manager, and the organization's mission, but if they perceive they are underpaid they are still likely to seek out other opportunities that will compensate them fairly for the value they are bringing to the organization. **Our research demonstrates this outcome.**

2

Employees are more likely to leave if they don't think they are paid fairly

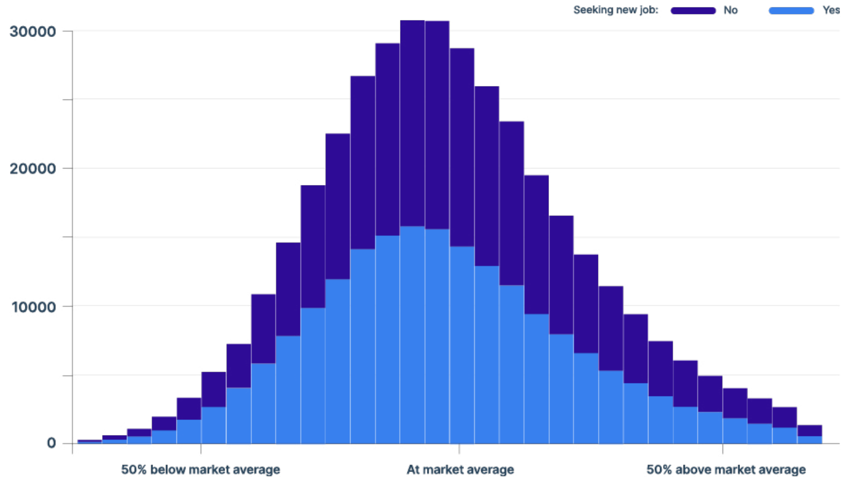
When employees don't feel they are paid fairly, they are more likely to seek a new job. Our research shows that those who think they're paid below market represent around two-thirds of job seekers. Using a logistical regression model that takes into account multiple variables that impact retention, our analysis has determined that employees who are paid below market are overall 49.7 percent more likely than those who think they're paid at or above market to seek a new job in the next six months.

Percent of people seeking a new job



We know that pay perception – not actual pay — is the reason employees seek new opportunities. In our analysis, we found that market penetration, or how one is actually paid compared to market, does not have a statistically significant impact on job seeking behavior. It is only perception of whether or not pay is fair that impacts whether an employee will stay with the company or start looking for other opportunities. In the below graph, we see that both job seekers and non-job seekers have the same distribution across market penetration – there isn't a higher frequency of job seekers who are underpaid, or vice versa.

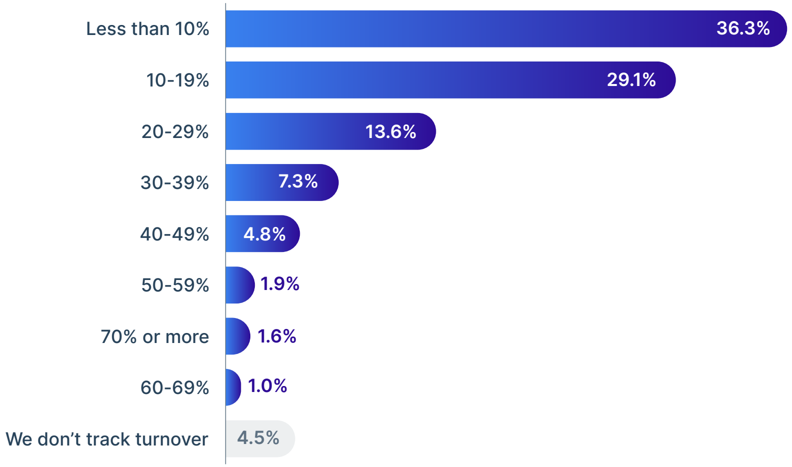
Job seeker behavior does not change with market penetration



What constitutes good turnover

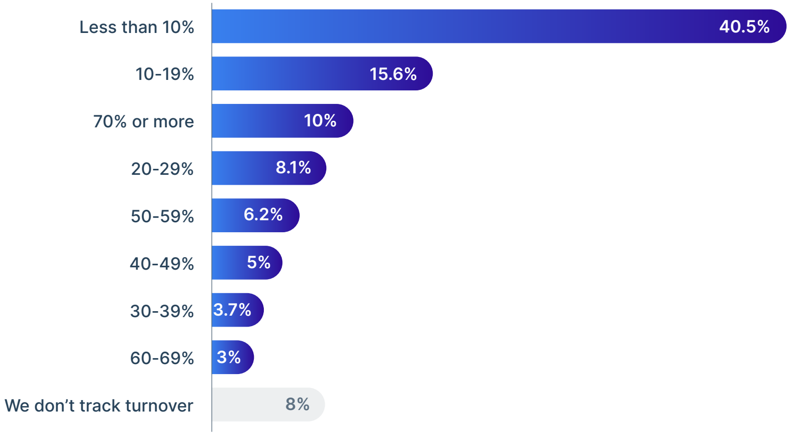
Although some turnover is inevitable, most organizations want to prevent good employees from leaving. A good turnover rate is roughly around 10 percent or less, though this can vary considerably by industry. However, almost 60 percent of organizations have a turnover rate higher than 10 percent. This indicates that a majority of organizations struggle with retention and should be looking into strategies to decrease turnover and retain more of their trained and knowledgeable employees, especially in a hot market after an unprecedented year.

Which of the following most closely matches your 2020 turnover rate?



Of course, some turnover is actually healthy for a business. When disaffected or poorly performing employees leave the organization, it can boost morale and create opportunity for the organization to invest in fresh blood and new perspectives. However, for 2020, a majority or organizations (56 percent) cited less than 20 percent of turnover as being "good" turnover.

Of employees who left on their own what percentage was 'good' turnover (exit of low-performing employees)?



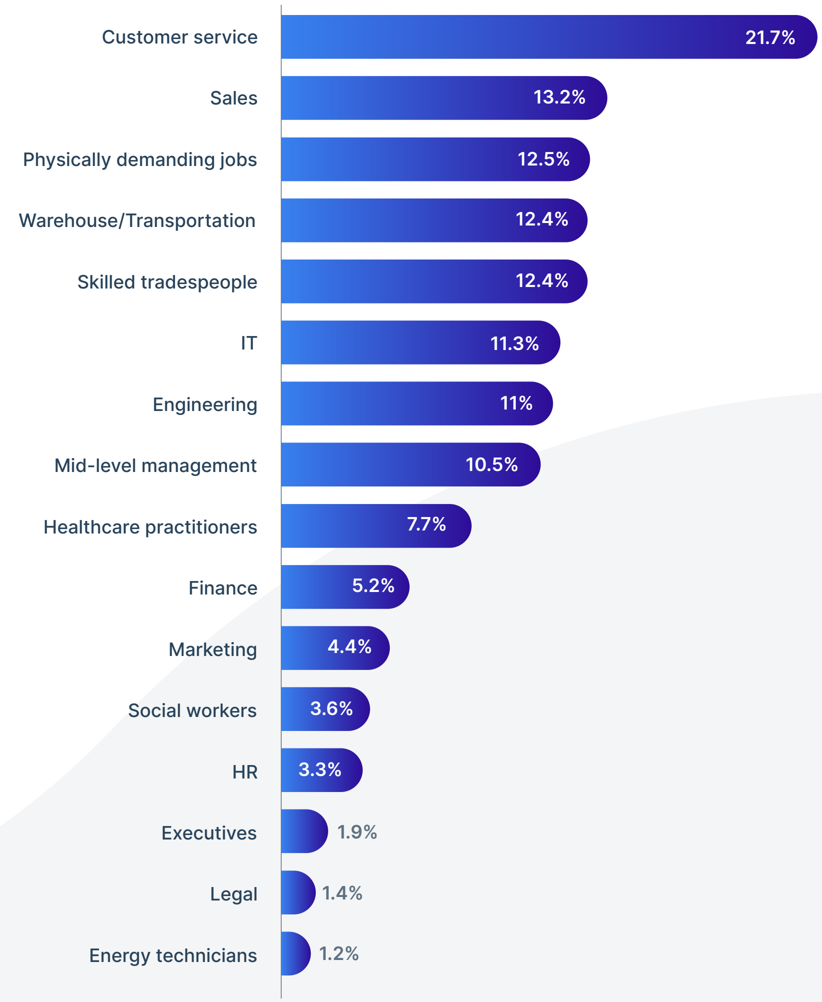
Specialized comp for occupations with higher turnover

Managing turnover is particularly challenging in occupations with high skill, a high degree of stress, or where compensation is otherwise harder to get right. For example, customer service and sales organizations experience some of the highest turnover, both of which require unique compensation packages with strong commission or rewards for customer retention and where stress can also be a factor. Physically demanding jobs are also strongly impacted by compensation, especially if there is also an element of hazardous conditions. Warehousing and transportation were critically important in 2020 and the wages for these jobs may need to increase to retain workers. Skilled tradespeople, engineers, IT, mid-level managers, and healthcare practitioners can all command specialized pay to attract and retain talent, especially in a hot market, putting even more emphasis on the importance of compensation strategy and the differentials used to determine pay premiums.

Ultimately, our research suggests that basic efforts to train managers on pay communications will help organizations outcompete other employers when it comes to retention. Of course, in order for organizations to train managers on pay communications, organizations must first be confident in their salary data, compensation strategy, and pay structures, and that they are paying people fairly.

From there, organizations are better positioned to pursue pay transparency, which our research shows to be correlated with lower likelihood that employees will look for a new job.

For which occupations do you see the most turnover?



3

Pay transparency decreases intent to leave

We asked whether employees felt their organization was transparent about pay and then compared how they answered with their intent to leave. The results suggest that pay transparency reduces intent to leave. However, it is important to note that pay transparency is a spectrum and that organizations need to have a compensation strategy and pay structures in place before they can be transparent.

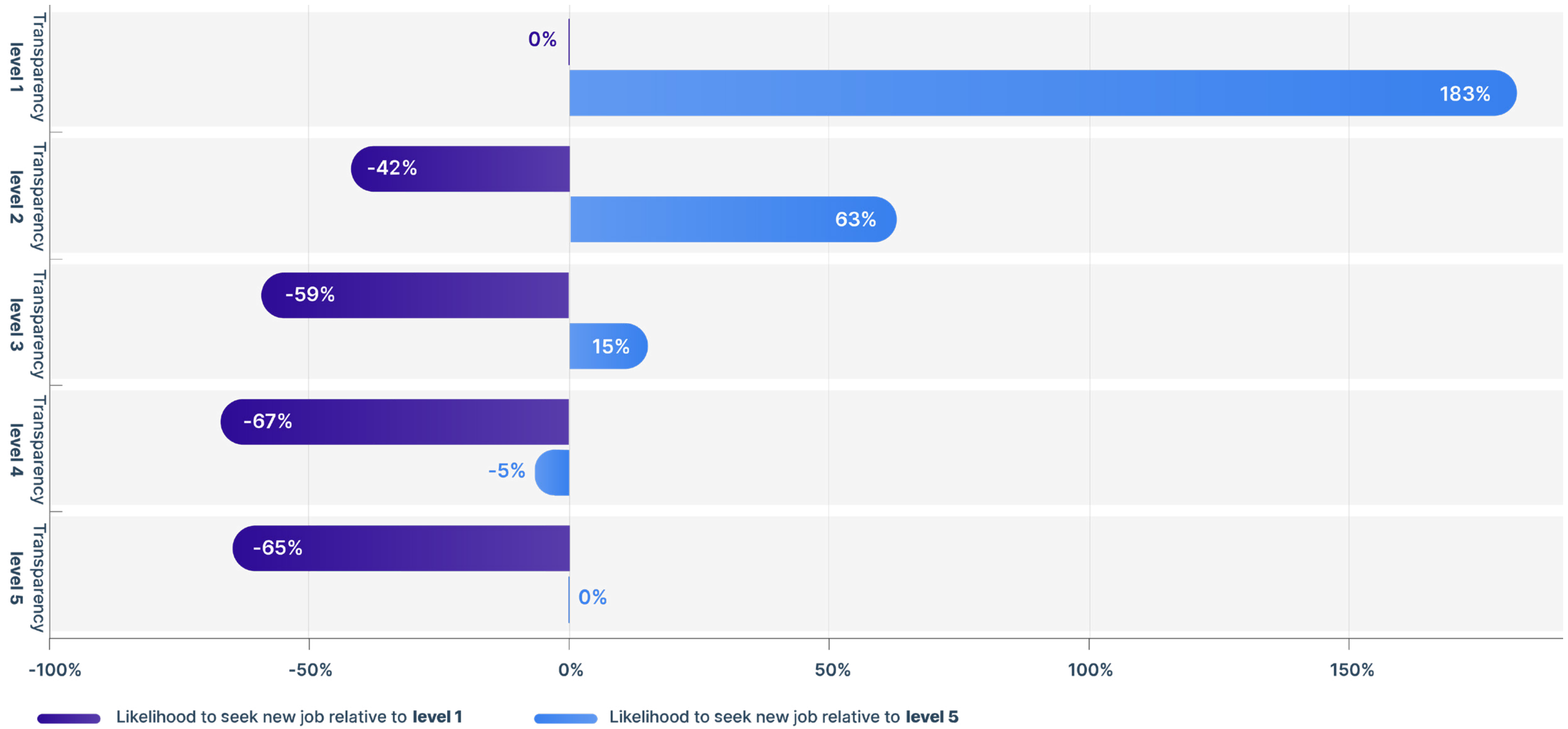
The Pay Transparency Spectrum

1. What	2. How	3. Where	4. Why	5. Whoa
Paycheck	**Data market study**	**Plan strategy pay ranges**	**Culture manager training**	**Open salary published ranges & salaries**
"Here's what you get paid"	"Here's how we can use market data to determine pay"	"Here's where your pay falls and where you can go"	"Here's why we pay like we do"	"Here's everything you want to know about everyone's pay"

In our research, we asked employees if pay at their organization was transparent on a spectrum of 1-5. We then compared transparency levels according to their associated likelihood to seek a new position. Overall, we found that employees were more likely to leave non-transparent organizations compared to transparent organizations.

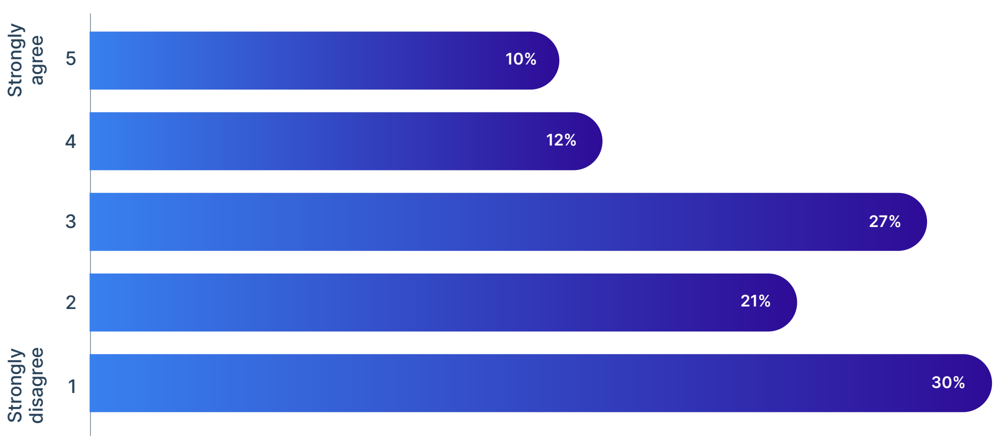
Specifically, we looked at how the likelihood to seek a new job changes as organizations become more transparent by using a base transparency level of 1. We found that employees who work for a very transparent organization (level 5) are 65 percent less likely to leave relative to a level 1 transparent organization. Alternatively, we can evaluate how intent to leave changes when organizations become less transparent by using a base transparency level of 5. Expectedly, employees who work for a very opaque organizations (level 1) were 183 percent more likely to leave relative to a level 5 transparent organization.

Impact of pay transparency on intent to leave



Interestingly, a level 4 pay transparency slightly outperforms a level 5 pay transparency for intent to leave. This may be because high pay transparency could be detrimental to pay perception in some unique ways. For example, high transparency may cause some employees to feel dissatisfied when comparing their salary to what other employees are making or validate that they truly are paid below market. Overall, though, pay transparency of level 4 or 5 outperforms a level 3 and below when it comes to intent to search for a new position.

Unfortunately, 78 percent of respondents described their organization's transparency as a level 3 or below, meaning that the vast majority of organizations are putting retention of their workers at risk by not being fair and transparent about pay.



The challenge to HR and compensation teams

The majority of organizations should be pursuing at least a level 3 in pay transparency but will reap additional benefits with a level 4. However, year over year, the majority of organizations have not achieved this level of pay transparency. Payscale’s 2021 Compensation Best Practice Report showed that majority of organizations still fall below a level 3 in pay transparency and less than 30 percent even desire to be a level 4 or level 5.

Although there are pros and cons to sharing all salary ranges for all positions publicly (level 5), our research indicates that a level 4 for pay transparency would improve employee relations and reduce unproductive turnover.

The Pay Transparency Spectrum	**1. What** Your organization tells employees when and what to expect on their paycheck.	**2. How** Your organization shares some market data with employees.	**3. Where** Your organization has a comp plan and shares pay ranges with individual employees.	**4. Why** Your organization's comp plan reflects org culture, drives talent strategy, and is open to EEs.	**5. Whoa** Ranges and employee pay information is available to all employees.
Current Pay Transparency	43.0%	23.4%	19.4%	9.0%	5.1%
Desired Pay Transparency	25.6%	19.8	26.7%	21.1%	6.8%

The reason many organizations cannot achieve more with pay transparency is likely due to a lack of maturity when it comes to compensation management, such as undeveloped pay structures and the lack of an overall strategy. Small organizations are less likely to have mature compensation management capabilities. However, large organizations can also struggle in this area. Lack of compensation maturity can derive from a lack of allocation or underutilization of necessary resources—including the size and competency or the compensation team as well as compensation management software being used—as well as challenges and impacts to the business. This can necessitate revisitation of compensation strategy and structures to the point that pay transparency is forever out of reach.

To learn more about compensation strategy and maturing your approach to compensation management, check out our whitepaper:

How to level up your compensation strategy and start managing comp continuously

Download →

Conclusion

Pay communications are essential for competitive pay strategies to be effective at attracting and retaining employees. To improve pay transparency, organizations need to invest in compensation strategy and structures, modernize their approach to comp management, and create compelling compensation packages to attract and retain valuable employees.

Learn more about how compensation management software, data, and services can help your organization improve pay accuracy and transparency and reduce turnover.

Request a demo →

About Payscale

As the industry leader in compensation data and technology, Payscale helps organizations #getpayright. Payscale is the only technology solution for managing compensation that provides multiple streams of fresh, transparently curated and validated salary data. Combined with modeling engines that learn continuously and generate recommendations and insight, Payscale empowers HR to price jobs and adjust compensation to reflect near real-time changes in the market — all on one trusted data platform. With Payscale's Adaptive Compensation Advantage, teams operate with efficiency, focused on outcomes rather than manual data management.

To learn how companies like The Washington Post, Perry Ellis International, United Healthcare and The New York Times rely on Payscale to attract and retain top talent, motivate and engage employees and plan their future workforce, visit **payscale.com**.

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Methodology

To determine impact of selected variables on retention, we employed a logistic regression model where intent to seek a new job in the next 6 months was the dependent variable. Market penetration was determined as a respondent's reported Total Cash Compensation being above, at , or below the national median for their job and experience level.

Total Cash Compensation (TCC): TCC combines base annual salary or hourly wage, bonuses, profit sharing, tips, commissions, and other forms of cash earnings, as applicable. It does not include equity (stock) compensation, cash value of retirement benefits, or value of other non-cash benefits (e.g., healthcare).

Median Pay: The median pay is the national median (50th percentile) annual total cash compensation. Half the people doing the job earn more than the median, while half earn less.

Market Penetration: A respondent's pay divided by the national median pay for their job title and years of experience combination. If a Data Engineer with 3 years of experience makes $93,400 a year and the national median for Data Engineers with 3 years of experience is $89,500, their market penetration is 1.04. Meaning they are 4 percent higher than the market median.

True Market Position: A respondent's pay relative to the market, which is based at the national median for their job and experience level. This has 3 potential outcomes:

- **Above Market:** Defined as 10% or more above the national median for a given job and experience level.
- **At Market:** Defined as within +/- 10% of the national median for a given job and experience level.
- **Below Market**: Defined as 10% or more below the national median for a given job and experience level.

Poor Pay Perception: Respondents that think their current pay is below average compared to other employees like them.

Transparency Level: The level a respondent reported for their employer on the pay transparency spectrum (likert 1-5).

- **Base Transparency Level:** To fully explore the relationship of pay transparency and retention, we establish base levels of transparency relative to the other levels. A base level of 1 measures the likelihood to seek a new job at levels 2-5, relative to 1. (i.e. - Respondents at level 5 are 65% less likely than those at level 1 to seek a new job)