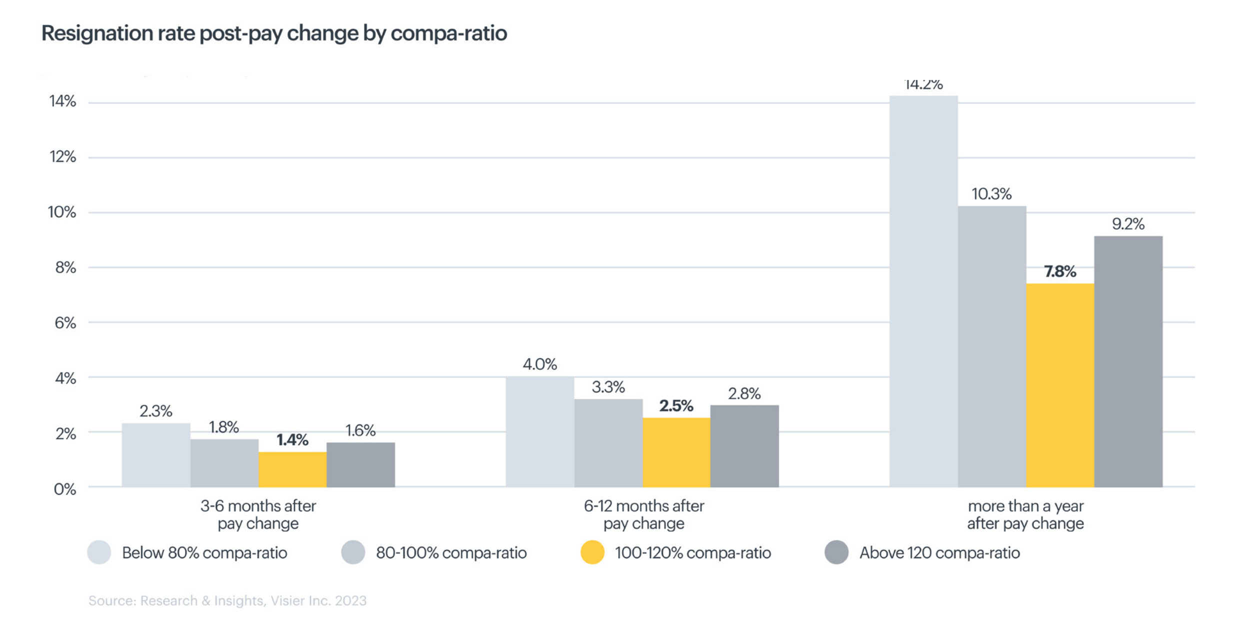
The Compensation Sweet Spot

Talent retention has emerged as a business critical topic for organizations. The creation of a positive employee experience has many aspects, and compensating top talent has always had a special place in it. But how much of an increase compared to compensation rate is not enough or perhaps too much when it comes to retaining your top talent?

We analyzed compensation and resignation data of 4M+ employees in the Visier Community database and found that while compensating talent below compensation ratio does lead to more resignations, pay increases that place a person at or above 120 percent of the compensation ratio of a salary range do not guarantee higher retention of top talent.

Make no mistake: fair pay clearly matters. Employees whose salaries were at or below 80 percent of the midpoint after a recent pay increase, resigned at higher rates in every time frame we looked at (see figure). However, while a compa-ratio of 100-120 percent seems to hit a ''sweet spot' that is linked to a comparatively lower number of resignations, there is also a fading effect of pay increases beyond 120 percent compensation rate (see figure).

Pay increases 120 percent or above compensation ratio do not guarantee higher retention of top talent.



In sum, our data suggests that there may be diminishing returns to increasing pay beyond 120% compensation rate if the goal is talent retention.

In other words: there is an optimal range for salaries that lies between the midpoint and 120 percent of compensation ratio. This finding has important implications for managers as they determine their team member's—and especially their key talent's—pay increases.

Learn how to empower your managers to make data-driven compensation decisions with **Visier Smart Compensation**.