Executive Summary

2003 IT Market Compensation Study

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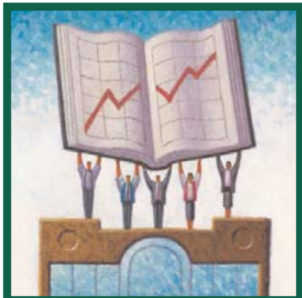

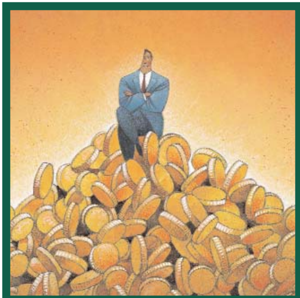

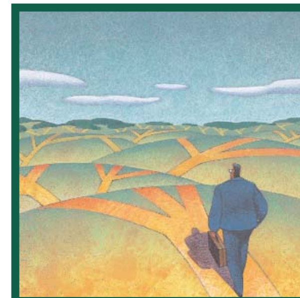

The Human Capital Management Resource for IT

Executive Summary

The past year has been one of great turmoil around the globe, and it has had a wide-ranging effect on everything—from the macro economy to the safety and security of each individual person. Since this time last year, additional and numerous factors have exacerbated the United States as well as the global economy, including intensified threats of terrorism, the war on Iraq, additional corporate financial scandals, as well as recent health threats.

The state of IT over the past year, particularly since our last IT Market Compensation Study, has been dictated by the above-mentioned increased global issues affecting everything from the economy to basic personal security issues at home. The message in our 2002 Study covered continuing declines in business and stock value, as well as the beginnings of an increase in unemployment. Furthermore, the tone of the 2002 Study was moderately hopeful of an economic recovery, which we know has not yet occurred.

Additionally, as we addressed in our 2002 Study, the need for enterprises to "do more with less," that is, to perform the same amount of work—or more—with fewer resources, continues to grow and becomes even more critical for the year 2003. IT organizations are urged to have intelligence about the skills and competence of their people in order to support a robust IT sourcing or staffing strategy.

The 2003 IT Market Compensation Study addresses many of the current and emerging internal and external issues that affect how IT human capital is acquired, organized, developed, managed and optimized—that is, the whole spectrum of human resource management, from recruitment and retention, to reward, recognition, work/life balance and career development.

The information provided in this Executive Summary highlights some of the key and thought-provoking findings from this year's survey.

Overview

A total of 151 organizations participated in the 2003 Study. The compensation reports presented in this Study represent the cash compensation data, as of March 1, 2003, for 43,990 incumbents in the United States who were matched to the benchmark jobs included in this year's survey.

This year's survey covers 122 benchmark jobs grouped into 25 different job families. Three new positions were added to the benchmark job list this year, based on the survey design team's research combined with feedback received from our clients. Incumbent-based compensation data are collected from participants and grouped into the components for reporting as follows:

- Base salary (as of March 1, 2003)
- Base salary range (minimum, midpoint, maximum)
- Short-term incentives/bonuses eligibility for FY '02
- Total target short-term incentives/bonuses for FY '02
- Project milestone pay for FY '02
- Annual incentives/bonuses for FY '02
- Other short-term incentives/bonuses for FY '02.

Survey participants also completed an in-depth questionnaire to provide information on their current practices in the areas of IT human capital management.

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Qualitative Highlights

Recruitment

In today's continuously slow economy and softened IT market, after rounds of layoffs and budget cuts, most companies have held off on filling their vacancies and hope for an upturn in the market soon. In addition, there are more qualified, talented people without jobs and available in the marketplace. Is having strategic recruiting practices still important in this buyer's market? The answer is "yes," for many reasons that we learned from our participants.

Surprisingly, only 34.1 percent of a total of 135 respondents reported they had a documented recruitment strategy. This certainly draws the attention of the survey authors with regard to the number of companies that do not have a recruitment strategy on their agenda. Even in this tough business environment, a key factor for an IT human capital management strategy to be successful is still to have a recruitment strategy that effectively supports the business and IT strategies for both the short- and long-term. A formally developed and documented recruitment strategy provides a clear roadmap to defining how an organization will source high-caliber IT professionals cost effectively. In addition to having a documented strategy, it is imperative to review and update it regularly to ensure that it continues to fulfill the needs of the organization. Of our survey participants who do have a documented recruitment strategy, 54.4 percent indicated that they update it annually, 19.6 percent semi-annually (N=46).

Upon the development of a formal recruitment strategy, a set of metrics needs to be identified to ensure all recruitment results are measured against the business and IT objectives. Those metrics, such as time and cost to fill a critical position, level of vacancies and quality of candidates, are considered as effective quantitative measures for tracking and improving the effectiveness of a recruitment strategy.

Consistent with the results from the past few years, survey participants continue to rate the following recruitment sources or approaches as most effective. However, we do see a stronger preference, among the participants, of first using the existing internal talent pool to fill the vacancies—whether it is through promotions, lateral transfers within or across the enterprise, or contractor conversions. The benefits of using these approaches to increase employee morale and lower the cost at the same time may have become more attractive and tangible under today's environment.

- Promotions/lateral transfers within IT organization
- Employee referrals and contractor conversions (tie)
- Internet recruiting
- Internal dedicated IT recruiter
- Promotions/lateral transfers from the business to IT organization.

The survey results also indicate that a fairly low percentage of organizations continue to increase their usage of outside agents (for example, search firms) to recruit new hires.

Perhaps the most significant finding in this year's Study is the rising consensus on the importance of an IT organization culture in attracting talent, and it was even rated more effective than what used to be one of the top five factors, such as casual work environment. This may imply that IT professionals are starting to pay more attention to the work environment that has a natural fit for them, an environment that creates the most satisfying work experience, and one that addresses their desire to stay with the organization and feel satisfied and motivated to go to work every day. Besides the challenging work, company

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reputation and benefits programs are also considered as attractive factors to IT professionals, which illustrates their desires to have a sense of stability in an uncertain economic environment.

Compared to previous years' results, we find that the overall percentage of respondents reporting difficulty in staffing various IT positions has dropped, which, in part, indicates the continual softening of the IT labor market. For several years in a row, Database Administrator is again rated as the most difficult position to fill. Security roles (for example, Security Analyst) have become increasingly in demand since 9/11, and are therefore considered more difficult to hire in the market these days. The top most difficult-to-hire positions reported this year are:

- Database Administrator
- Internet/Web Architect, Network Architect and Network Engineer (tie)
- Security Analyst
- Project Manager
- Web Applications Programmer.

The massive layoffs and downsizing may have made IT recruiting a much easier process, especially in year 2001. However, this year's results indicate a rather settled market, with overall average months to fill an IT technical position at about the same level as last year (that is, two to three months).

Participants were also asked the level of difficulty in recruiting IT professionals with selected skills. One of the notable changes in this year's results is that fewer participants reported that they experienced difficulty in recruiting the skills surveyed. Overall, those most frequently rated as difficult-to-hire skills remain the same compared to the results from the past few years' Studies. However, there are some emerging, increasingly popular skills that have drawn attention in the market. For example, this year PeopleSoft has risen to second place on the list and tied with UNIX. In general, the results also reveal an increasing demand in enterprise resource planning (ERP)-related skills. The top five most difficult-to-hire skills are:

- Oracle Administration
- PeopleSoft and Unix (tie)
- Java
- Oracle Development
- MS SQL Server.

Our survey results from the past several years have revealed a declining trend in offering IT skill premiums. This year's results continue to prove such a downward trend. The typical premiums paid, if any, generally range from 5 to 10 percent of base salary. Certain highly in-demand skills, for example, PeopleSoft, may be paid up to 15 percent in premium.

Retention

The continuously softening economy and ease in IT labor market may have led many companies to believe that retention of IT talent is no longer an issue for them. However, with some signs of an upturn in the economy on the horizon, we cannot emphasize too strongly the importance of continuing to have effective retention practices in place during this time. Companies need to prepare for the inevitable increase in market demand of IT talent, when the pace of the economy and IT is expected to pick up speed in the near future.

One of the key metrics that is an indicator of the effectiveness of an organization's retention practices is the level of its employee turnover. As voluntary turnover rates continue to drop to

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a lower level according to this year's survey results, we also noted a slight increase in employer-initiated turnover. This may imply that more of the turnovers occurring in the last 12 months were generated by employers' reduction-in-force efforts versus individuals making job changes. To gain an understanding of what is a healthy level of turnover, who is leaving and for what reasons, we conducted a series of analyses on turnover levels by region, industry and employee demographic group (age and years of service). The following presents the highlights from these analyses:

Regional Turnover Analysis Highlights

- Across all regions, the turnover rates are at a relatively consistent level. On average, about 84.0 percent of respondents reported no more than 7 percent of voluntary turnover in any region.
- Northeast, Southeast and Western regions appear to be at similar levels in terms of employee-initiated turnover. The majority of companies in these regions experienced no more than 5 percent of voluntary turnover. However, there is a notable percentage of companies that have 5 to 7 percent or even higher voluntary turnover rate. Some companies even experienced greater than 20 percent employee-initiated turnover.
- When looking at employer-initiated turnover, within each region there are about 40 to 50 percent of the companies that appear to be stable with regard to their staffing levels. These companies had less than 3 percent reduction-in-force during this survey period. However, when comparing these results to the findings on employee-initiated turnover, it reveals a slightly different picture. We found a higher percentage of companies had a higher level of employer-initiated turnover. This is more notable in the Northeast region.

Industry Turnover Analysis Highlights

- Public, Non-profit sector appears to be the most stable industry, as its voluntary and involuntary turnover rates are both notably lower than other industry segments.
- Insurance sector (new grouping this year) experienced relatively higher employee-initiated turnover, with the majority of companies in this group reporting turnover rates between 3 and 9 percent. On the other hand, the employer-initiated turnover of this group shows a bi-modal pattern, with a large percentage of the companies reporting relatively low reduction-in-force (less than 5 percent), and a second large cluster of companies reporting higher levels of workforce reductions between the range of 11 and 20 percent.
- Manufacturing industry shows a bi-modal pattern in both employee- and employer-initiated turnover levels. That is, approximately 80.0 percent of the companies are reporting having no more than 5 percent voluntary turnover, and another 17 percent reporting 9 to 15 percent voluntary turnover. On the other hand, about 73.0 percent of companies indicated that they had no more than 5 percent reduction-in-force in the past 12 months, while another 20 percent of companies had between 11 and 20 percent in that regard.
- High Tech industry, although it represents a relatively small group of companies in the survey sample, appears to have relatively high employee- and employer-initiated turnover in general.

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Demographic Group Turnover Analysis Highlights

- A notable change, in comparison to last year's results, is the increase of turnover in the 46 or older age group. Comments provided by survey participants indicate that the increase in the separations from this group may be primarily due to the aging workforce (more prominent in the public and government sector) and companies' reorganization, reduction-in-force efforts which trigger the affected employees to take the severance, early retirement or similar packages.
- In general, across different age groups, the number one reason cited for turnover remained the same as what we have seen from past year's results, that is, "offered a promotion at another company."
- Besides the lack of career advancement/development opportunities, most of the other reasons given by employees at different age and years of service have to do with retention issues related to today's unique economic and business environment. One of the reasons standing out from the list this year was "uncertainty regarding the company's future."
- When looking at turnover by years of service, one of the significant changes compared to last year's results is the decreasing number of employees who left from the group with less than two years of service (dropped from 40.9 percent in 2002 to 23.4 percent this year).
- The second notable change is the increasing turnover in the group with more than 20 years of service (from 6.9 percent in 2002 to 16.0 percent in 2003). This group consists mostly of employees in the age group of 46 and older, which may be leaving the workforce due to early retirement or similar reasons.

In contrast to last year's results, our regression analysis on IT turnover rates and the satisfaction levels with current IT human capital management practices did not reveal any correlation between the effectiveness of human capital practices and turnover rate. In other words, the results further attest to the fact that, today, what makes employees stay in their current jobs are more external influencers, such as a continuously softening economy and record-high unemployment rate, rather than what companies have to offer beyond just job security. However, this does not mean that companies should not continue to implement effective human resource programs. In fact, this is the time to review the purposes of these programs and make them more meaningful and cost-effective.

Reward

The most frequently asked questions nowadays by IT managers and compensation professionals are no longer regarding how much more they need to pay to attract IT professionals, but rather how they can pay competitively and not over pay. With the increasing pressure on cost cutting, evaluating the competitive positions for IT compensation becomes more important than ever on an organization's agenda. However, at the same time, an employee's desire for a better compensation package continues to be one of the most important attraction and retention factors. So, how do companies balance these internal versus external, employer versus employee perspectives in IT compensation management? The survey results this year reveal some interesting changes in the reward practices among our participants.

Consistent with previous studies, companies continue to target at market median for IT base salary benchmarking. However, the results indicate a slight shifting of companies' position, from targeting at 75th percentile of the market for total cash compensation (TCC) to either market median (P50) or somewhere in between, typically between P60 and P65 of the market.

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Keep in mind that such differences in survey data may be accounted for, to some extent, by variations in survey samples from year to year. This is a trend, however, that should be tracked for the next year or two to determine its true significance.

After last year's significant drop (1.2 percent) in base salary increase budgets from the year before, it appears that companies have maintained similar budget levels as FY '02 for FY '03. The average budgeted salary increase for IT employees for FY '03 is 3.5 percent, which is the same as reported for the FY '02 budget in the Study last year. The base salary increase budget for non-IT jobs also remained stable at 3.4 percent with a total of 77.4 percent of participants reporting budgeting between 3 and 4 percent. The results attest to the overall stability we have seen in the IT marketplace in general. The overall actual average IT base salary increases given for FY '02 and FY '01 were 3.5 percent and 4.1 percent respectively. Compared with the targeted budgets, we find that the rates of actual salary increases have been in line with, or slightly below, what were budgeted for the last two survey years.

Even under today's slow economy and IT market, and the fact that many people are more concerned about job security than pay equity, it is still important that, as an employer, you continue to benchmark your compensation practices to ensure their competitiveness and readiness for the upturn of the market. A variety of reward practices can be used to achieve the internal equity as well as external competitiveness. These practices include, but are not limited to, providing off-cycle salary increases, using market-based pay, and hiring over the midpoint. Our survey results indicate a slight decrease in the use of off-cycle salary adjustment for the above-mentioned purposes. However, on the other hand, results also imply that companies continue to value individuals that bring extensive experience to the organization and would pay relatively high salaries (for example, hire above midpoint) for those critical and hard-to-fill positions.

One of the factors that contribute to high turnover and low morale is the inconsistency in the compensation practices of different managers. Surprisingly, approximately 30 to 40 percent of companies do not have a formal salary structure for different staff levels within their IT organization. It is recommended that companies at least have a formal salary administration guideline, even if it does not translate into a formal pay structure, to ensure that managers can be consistent in applying the internal and external data in their salary decisions.

It is also interesting to note from the survey results that there are still a rather significant number of organizations that maintain a separate salary structure for IT. In the technology booming era, having a separate structure for IT might have made a lot of sense. The key benefit of having a separate pay structure for a fast and evolving profession is that it helps to maintain the balance of a greater consistency (for non-IT jobs) and flexibility (for IT jobs) in the compensation management. However, as the IT market started to settle down into a more predictable mode during the last two years, we have seen companies begin to consider merging the IT pay structure with the rest of the company, simply because it is easier to manage all jobs under one structure. There is certainly less salary administrative burden, which results in lower costs. However, it is always important to first conduct a long-term cost and benefit impact analysis before consideration is given to implementing a separate IT pay structure or abandoning the one currently in place.

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The downsizing and cost control measures implemented by companies today may have also contributed to the shift in IT pay mix (the combination of base salary, variable pay and long-term incentives). Below are highlights of findings from this year's results.

- Companies have maintained their base pay levels during this difficult time. However, they tend to rely more on the variable pay components to ensure their competitiveness.
- More companies are using spot award programs (42.9 percent in 2003 versus 34.5 percent in 2002).
- More companies are deploying short-term incentive/bonus programs based on business unit performance (39.1 percent in 2003 versus 30.9 percent in 2002). They also considered it as the most effective (ranked as 1) in improving performance (versus ranked as 2 in 2002).
- Overall, the results indicate a significant drop in the number of companies offering long-term incentives across all program categories, as well as across different staff levels.
- Compared to last year's results, we see a notable increase in the percentage of companies that *did not* offer any type of long-term incentive programs to their IT management (60.9 percent in 2003 versus 37.6 percent in 2002) and individual contributors (68.0 percent in 2003 versus 46.6 percent in 2002). The drop in the depth of broad-based, long-term incentive programs can be further seen in the decreasing number of companies offering stock options programs in general.

Today, technology is an important part of everyday business operations. Some of the IT support functions to the business, such as data center operations, often require 24/7 service levels. In order to meet increasing business needs, one of the critical questions that needs to be addressed is the staffing of these 24/7 IT functions, such as using shifts and on-call programs, as well as how to compensate employees appropriately for work of this nature. Based on the increasing demand of market data in this area, this year we asked our survey participants questions regarding their practices on shift scheduling, shift premiums (differentials) and on-call practices. Below are the highlights of our findings:

- The majority of companies in our survey (69.0 percent) are actively staffing their IT functions with shifts to support business operations. The IT function that most often requires people to work on shifts is computer operations, followed by customer support (for example, help desk).
- Most organizations appear to have practices involving multiple shifts (that is, second/third shift) versus longer hours per shift (for example, 12 hours day and/or night shift).
- Approximately 59.0 percent of respondents indicated that they pay a percentage (different from overtime) in addition to the regular hourly rate for hours worked on shifts.
- Shift premium rates vary by type of shift as well as by function. In general, companies pay between 6 and 11 percent of base salary as premiums for working on different shift schedules. Night and later hour shifts usually receive more pay than the early evening shifts.
- The majority of companies (75.2 percent) have an on-call policy for IT. Most of them require their exempt employees to be on-call.
- More companies are using uncontrolled on-call than controlled on-call, that is most employees on call are not required to remain on work premises or within a specified proximity, but must be accessible via a beeper or cell phone.

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- The results also imply that a number of companies do not provide any compensation for either controlled or uncontrolled on-call periods. With controlled on-call, employees are more likely to be compensated at their regular salary rates or provided compensatory time off (in lieu of pay) compared to those on uncontrolled on-call duties.
- Companies typically start to pay employees called back to work from the time they arrive at the site.

Recognition and Work/Life

During the years of the technology booming era, compensation was all that was considered as reward to an employee. At the end of the day, monetary reward eventually became a matter of entitlement and lost its original purpose of being a stimulus for desired behaviors and performance. Nowadays, when cost containment and reduction are the top priorities for businesses, and they are for improved performance and bottom lines with limited resources, "do more with less" is inevitably the theme and objective of any total reward strategy in practice. In fact, companies are more attracted to, and are interested in, a variety of creative ways to reward their employees with minimal or no investment of dollars. Among all the programs that can be classified as reward, recognition and work/life balance programs are probably the ones that can be the most creative and flexible for companies who are seeking alternatives to monetary rewards with similar or greater results.

Effective recognition and work/life balance programs not only support the values and goals of the organization in an intuitive way, as do traditional monetary rewards, but more importantly, they are usually tailored to the individual needs of each employee, and are thus more likely to gain greater return on the time and money invested.

Consistent with what **people^3**'s Study participants said this year regarding recognition practices such as informal pats on the back and celebration/public recognition of achievements being very effective, personalizing the recognition and work/life balance programs may take lots of managerial initiative and thoughtful implementation, but the payoffs are usually enormous. This year, the top five most effective means to recognize an employee for a job well done are as follows:

- Informal "pats on the back"
- Celebrations: public recognition of achievements
- Gift certificates
- Picnics, luncheons, outings
- Trinkets.

This year's survey results also reveal a promising note that more companies appear to invest more in recognition related programs.

Although direct financial reward (for example, base pay, bonuses, long-term incentives) forms the foundation for a total reward strategy, what really reinforces behaviors and impacts employee morale and productivity on a daily basis is the non-monetary stimulus associated with many of the programs that address work/life balance issues. Companies need to review and re-evaluate their investment in the total reward programs, taking into consideration that work/life balance programs that are developed and tailored to the needs of employees will garner benefits that far outweigh the costs to the company. Especially when many IT organizations are now being asked to "do more with less" under this challenging environment, the implementation of work/life balance programs that can justify a better

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return on investment (ROI) certainly has very tangible benefits to the business in both the short- and long-term. Survey respondents indicated the following programs as effective in addressing employee's work/life balance issues:

- Education/certification reimbursement
- Casual attire at work
- Flexible work arrangement
- Attendance at conferences/seminars
- Company matched 401(k).

Career Development

A carefully designed career development program can assist organizations in building and maintaining an agile workforce. While the economy and businesses are struggling to rebound, employees continue to value career advancement and development opportunities as one of the most important retention factors. Employers who miss this unique opportunity to nurture a long-term bond with the employees from their career development perspective will likely lose their key talent when the economy rebounds and the demand for IT talent rises again.

IT and HR leaders need to carefully review the career development programs for IT, enhance the return on investment of those programs, and evaluate the opportunities to continue investing in talent management and development programs. Although our survey results indicated a promising note in that more companies now have a formal career development program, fewer of them considered their programs being effective in increasing employee growth and advancement. This result raises the concern that perhaps it is time for IT organizations to re-evaluate their career development program design and determine ways to improve its effectiveness.

We asked survey participants to rate the effectiveness of three career development program components, that is, competency models, documented career paths and learning maps. The results indicate that 53.4 percent of companies do not use competency models, 40.7 percent do not have documented career paths, and 55.1 percent do not include learning maps as part of their career development programs. The following presents the percentage of companies that rated these components to be "effective" or "extremely effective":

- Use of competency models—49.1 percent (N=53)
- Documented career paths—70.0 percent (N=70)
- Learning maps for development—48.0 percent (N=50).

Organizations will likely find these career development components to be effective if they can include a set of clearly identified core competencies for the business and IT, maintain current career path information, and provide and educate their managers and employees to use tools to assess the competency levels, create career development plans and learning maps for closing the gaps in skills and competencies.

The factors that drive desired behaviors and performance are primarily dependent on employees' competency levels. When properly deployed throughout the organization in a clearly defined career development program, competencies can be a powerful tool in ensuring the right people are in the right roles at the right time with the right capabilities. We asked survey participants to what extent they have competencies defined at the levels indicated

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below. The results show the percentage of respondents who defined competencies for each level from “moderately” to “extensively” (N=113). The results are fairly consistent with those reported last year.

- IT role level—64.6 percent
- IT organization level—54.9 percent
- Company level—46.0 percent.

An interesting change in this year’s results is that more organizations appear to have a formal competency assessment process. This may, in part, be due to sample variations, but it may also imply that companies are paying more attention to the assessment processes in order to use the competency models more effectively for better business results. This year’s results also show a slight increase in the use of various assessment methods (that is, self, manager or multi-rater assessment). However, the use of multi-rater assessment (for example, 360 degree assessment) is still not as prevalent as the manager or employee self-assessment.

It is recommended that as much input as possible from a variety of sources (that is, multi-rater assessments) is generally a better and more constructive means of capturing different aspects of an employee’s performance. Survey participants were asked, this year, to what extent (“moderately” to “extensively”) they use a multi-rater (for example, 360 degree) process for the following purposes:

- Both performance evaluation and career development—28.3 percent
- Performance evaluation only—8.7 percent
- Career development only—6.5 percent.

This year’s results show a slight increase in the percentage of companies using a multi-rater process for both performance evaluation and career development (20.3 percent in 2002).

As IT organizations are increasingly required to align with the business, and provide consultancy and leadership in achieving business results through technology, they will require employees to possess a multitude of technical, management and business skills and competencies. Consistent with last year’s results, our findings in this year’s survey indicate that approximately 69.9 percent of companies offer IT employees with two or more career paths, including 46.9 percent of them offering multiple career paths (for example, technical, management and project management career paths). This year’s results also continue to show an encouraging trend in that the majority of organizations reported updating their career paths on a fairly frequent basis (70.0 percent updated in the last two years).

One of the metrics used to evaluate the effectiveness of a career development program is the extent of career movement within the organization during a specific period of time. We are not surprised to see the magnitude of job movement within IT organizations has decreased notably compared to last year’s survey results. The number of companies that reported having 0 to 5 percent of their employees moved to a new role in the past 12 months has increased to 44.9 percent (31.1 percent last year). On the other hand, the responses to each of the other categories have all relatively dropped. These changes are more likely indicative of the economic and business landscape at this time, rather than organizations experiencing increased growth. In addition, many IT organizations actually downsized and eliminated jobs and it is unlikely that they had career movement opportunities to offer their employees.

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Quantitative Highlights

people[3] believes that what is behind the numbers is as important as the numbers themselves. We performed a series of sample analyses on the survey population to collectively assess the impact of key economic and business factors on compensation for individual IT jobs/positions, including:

- Scope of responsibility (assessed by scope variant levels)
- Geographic region (Northeast, Southeast, North Central, South Central and Western)
- Size of the company (as measured by annual revenue or appropriate volume measure)
- Size of the IT organization (as measured by the number of IT staff)
- Industry represented by the reporting organization (Financial Services, High Tech, Insurance, Manufacturing, Public/Non-Profit and Other Services)
- Other business factors (for example, vacancies, turnover rate, use of contractors).

Based on the analyses, we are then able to examine the influence of any one factor on compensation for IT jobs/positions, either individually or in conjunction with other factor(s), as well as to determine if the influence of a particular factor is prominent based on its statistical significance. This analysis helps IT managers and compensation professionals to understand specifically the factors that dictate why people are paid what they are paid for a given job in a given business circumstance.

To analyze the impact of different business factors on IT compensation levels, we performed a series of regression analyses using the whole survey sample (a total of 43,990 IT incumbents), as well as job-based regression analyses using all incumbent compensation data within Job Family 2.0 (Applications Development). Examining the factors behind pay based on the regression models of the whole sample as well as selected jobs within the most populated job family (a total of 16,046 IT incumbents, approximately 36 percent of the 2003 sample) has the advantage of controlling differences across jobs/positions, while at the same time, having large enough sample sets at the job level to increase the chances of finding the best fit models for the whole population. Below are the highlights of the findings of the regression analysis performed on the compensation data submitted this year.

Scope Variant—Scope of responsibility and level of proficiency of an individual in performing the job, as measured by scope variant in this Study, is the most prominent factor (in the models) in determining how much IT professionals are paid in base salary. The roles that involve more complex and higher level responsibilities, and require more advanced and wider breadth of knowledge and skills are paid higher salaries than lower and learning level positions.

Company Size—Companies with a large number of employees, all other things being equal, in general tend to pay lower salaries to their IT employees. Conversely, companies with higher revenues instead tend to pay higher salaries to their IT employees.

Number of IT Employees—Companies with a larger number of IT employees pay lower salaries. This may, in part, further explain why companies with a large number of employee populations (which usually have a relatively larger IT shop) tend to pay lower salaries to their IT employees.

IT Budget—Companies with larger IT budgets, all other things being equal, in general tend to pay higher salaries. However, job-based regression analyses indicate that the results may vary from one job to the other. Companies with larger IT budgets actually pay lower salaries to certain selected jobs in our analyses. This implies that, although IT budget is an important

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factor in determining IT pay levels, it probably needs to be examined more closely at the individual job level. A larger IT budget does not necessarily imply a larger IT payroll budget for all IT jobs. Certain jobs and functions may be more critical to the business than others, and therefore demand higher pay and a larger IT budget.

Total Full-Time Staff Voluntary Turnover Rate—The regression models indicate mixed effects of turnover rates on IT pay levels. The whole sample model indicates that the total staff voluntary turnover rate tends to have a negative impact on the IT pay levels. However, the job-based regression models indicate that that higher turnover may drive up the salary levels for individual jobs. The results may imply the following:

- Companies that have a non-competitive pay practice (lower than market base target) tend to lose more people.
- Higher turnover rate, on the other hand, may drive up the pay levels for certain jobs, as companies seek short-term solutions.
- However, pay is not the only issue that drives an employee's decision to stay or leave an organization. Companies may have relatively competitive pay practices, but still lose employees to their competitors. According to our findings in the Retention section, many non-monetary factors, such as career advancement/development opportunities, opportunities to work on new and/or more challenging technology, together with competitive compensation packages actually create a satisfactory total reward experience that retains IT employees for the long term.

Number of IT Vacancies—The whole sample regression model indicates that companies with more IT vacancies tend to pay lower salaries. However, the job-based regression models imply that high vacancy may also co-exist with high pay at certain job levels. This is consistent with our findings in the impact of voluntary turnover rate presented above, which obviously is the major reason why vacancies occur in the first place. In addition to the reasons that we present for turnover rate analysis, we suspect that companies with higher numbers of vacancies may be forced to leave those positions open during this difficult time. At the same time, companies have to raise pay levels for existing staff to keep them with the organization and to ensure the necessary productivity for the business.

Hiring Rate—The regression models from the whole sample and selected jobs both indicate that companies that hired more IT employees in the past 12 months, in general, tend to pay higher salaries. The results may imply that although there is more IT talent available during this economic downturn, companies that actively hire people (mostly due to critical business needs) are more likely to continuously pay competitive salaries for staffing their critical IT positions.

Use of Contractors—The use of contractors has mixed effects on IT base salaries for full-time employees. The whole sample regression model indicates that companies that currently utilize a larger number of contractors tend to pay lower salaries to their full-time employees. However, companies that hired more contractors in the last 12 months tend to pay higher salaries to their regular employees.

The results from the job-based regression models, on the other hand, indicate that in some cases (for example, Applications Architect and Systems Analyst) having a larger population of IT contractors may actually drive up the salary level for regular full-time employees, but for other jobs it has a negative impact on pay levels (that is, lower salaries). However, consistent with the whole sample model, companies who hired more contractors during the last 12-month period, in general, tend to pay higher salaries at individual job levels as well.

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In summary, these results suggest that the impact of using higher paid IT contract workers on the pay levels for IT employees needs to be examined more closely at an individual job level, especially for the jobs for which contractors are mostly used. In a difficult time like this, it may be necessary for companies to use more supplement staff (for example, contractors) to temporarily control the expensive fixed staffing cost elements (such as benefits for employees). However, for the long run, they still need to continuously maintain relatively competitive reward levels to retain their critical staff and be ready for the market turnaround.

Outsourcing Practices—Companies that currently outsource IT functions/skills appear to pay lower salaries to their IT employees. This may, in part, be because companies tend to perceive hiring outside contractors as part of their IT outsourcing strategy, which, according to Gartner, is known as "multi-sourcing" strategy. However, unlike the contractor practice, in our models based on the whole sample and individual jobs in Job Family 2.0, we concluded that the outsourcing factor has the consistent effect, across the board, of driving pay levels down.

Geographic Region—The regression models predict that IT jobs in the Northeast and Western regions tend to be paid significantly higher than other regions in the Study. The Southeast region pays significantly lower. The effects of the North Central and South Central regions on IT pay are relatively neutral overall. Although, we found in some models a positive effect on pay, other models were negative, but they appear to be less important variables in predicting base pay. This is primarily in line with our findings in multipliers for these two regions being close to the national median.

Industry Sector—Industry effects on base pay appear to vary across different jobs. This may imply that when considering the impact of pay by industry, it is better to examine it at individual job levels. Depending on how mature, sophisticated and strategic each industry segment is in using IT to support its business operations, companies in a specific industry may rely more on certain IT functions and jobs for business success, and may have more aggressive pay practices accordingly. However, in general, we find from the models that base salary levels tend to be consistently lower for the Public, Non-profit sector, relative to the other groups.

A series of whole samples and same sample analyses were performed to determine the changes that occurred during the past three survey years. Below are the highlights of findings from these analyses.

2001/2002/2003 Whole Sample Comparison—We used three years of whole samples (that is, all participants that reported data in 2001, 2002 and 2003 surveys) to perform this analysis. The results indicate that the overall average base salary for all IT jobs across the 2003 sample of 43,990 incumbents is $68,600 (a 1.0 percent increase over 2002 and a 6.1 percent increase over 2001); and Total Cash Compensation (TCC) is $73,700 (a 1.1 percent increase over 2002 and a 7.2 percent increase over 2001). The median base salary for 2003 is $67,400 (a 2.7 percent increase over 2002 and an 8.3 percent increase over 2001), and median TCC is $70,900 (a 2.0 percent increase over 2002 and a 10.3 percent increase over 2001).

On average, for companies reporting payouts of short-term incentives/bonuses (zero dollar payouts were excluded) during the 2002/2003 survey period (56 percent of the 2003 sample, compared to 58 percent in 2002 and 33 percent in 2001), employees received an average amount of $9,100 ($8,600 in 2002 and $8,000 in 2001) in addition to annual base salary. After excluding the high level of incentive pay for CIOs and other senior executives from the sample, the median level of 2003 incentive pay is $6,100, a significant 15.1 percent increase from the reported level of $5,300 in our 2002 Study.

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2002/2003 Same Sample Comparison—We identified a total of 102 companies that participated in both the 2002 and 2003 Studies and performed the analysis. The results indicate that a 2.9 percent increase from 2002 to 2003 in average base salary and 4.2 percent in median base salary. Average TCC increased 3.6 percent compared to 4.6 percent increase in median TCC. Average short-term incentive/bonus payments of all jobs experienced an 11.4 percent increase, and the increase in median payments after excluding the senior executive positions was at 22.8 percent. These changes are more pronounced as compared to the results from the 2002/2003 whole sample analyses. This further implies that the fluctuation in the results from the whole survey sample analysis may be likely due to different companies included in these years' samples, and their compensation practices vary quite significantly from one sample to another.

2001/2002/2003 Same Sample Comparison—We identified a total of 74 companies that participated in all three survey years and performed the comparison analysis. The results indicate that the changes in base salary and TCC levels are more consistent (increased pattern) from year to year based on the same sample comparison analysis versus the significant fluctuation presented in all three years' whole sample analysis (which is primarily due to sample variations from year to year). When examining the average short-term incentive/bonus pay across all three years, the same sample analysis reveals a significant downward movement between 2001 and 2002 data, and then a noticeable upward movement between 2002 to 2003 data. After excluding short-term incentive payouts to highly compensated CIOs and other senior executives, the results suggest consistent practices among these companies on limiting high payouts to their top executives, while at the same time maintaining better reward levels for their key rank-and-file.

In order to analyze the impact of geographic region, Metropolitan Statistical Area (MSA) and industry type on compensation levels, a series of compensation multiplier analyses were performed using the whole 2003 sample. Below are the highlights of findings from the multiplier analyses.

Regional Multipliers—The results indicate that the Western and Northeast regions tend to pay a premium of approximately 6 to 7 percent in base salaries and TCC relative to the national median. The North Central and South Central region tends to pay at national median for base salaries. The Southeast region tends to pay 4 to 5 percent below the national median in base salaries and TCC. In general, all regions tend to hold a similar position relative to national median at base salaries and TCC, which suggests that pay practices that incorporate incentive pay schemes have become more widely and uniformly implemented across the nation. At the same time, our data indicates that such practices apply to about 71 percent of the IT employees included in our 2003 sample (compared to about two-thirds of our 2002 sample and one-third of our 2001 sample).

Metropolitan Statistical Areas Multipliers—The data suggest that there is significant variability within individual regions according to the areas in which companies are located. For example, companies in Chicago, Illinois, on average, pay 7 to 8 percent higher than national average, while the North Central region (which Chicago is classified under) is overall at the national average. Kansas City, MO/KS, on the other hand, is only 2 to 3 percent higher than national average. Much of these differences within regions across different areas may be related to cost of living in certain metropolitan areas within a region, as well as the types of companies that operate in the area, and the overall supply and demand of IT talent.

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Industry Multipliers—The results indicate that the Financial Services and Insurance (included in Financial Services in previous years) pay levels were equivalent to the national median. Manufacturing, on average, pays 5 percent above the national median in base salary, and 8 percent above in TCC. Public, Non-profit companies continuously pay below the national median (4 percent below the national median in base salary and 9 percent below in TCC). Although this year's results indicate that the High-Tech sector seems to have slightly lower multipliers for its base salary and TCC levels (which may, in part, be due to different sampling and/or the continuous downsizing and cost cutting measures taken place in this sector), they continue to provide among the highest base salary and TCC. The results also imply that after a year of struggling (for example, downsizing, cost cutting and layoffs) under difficult economic conditions, the Manufacturing and Public, Non-profit sectors show some sign of rebound as their base and TCC pay levels start to move back to where they were prior to the 2002 Study.

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