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Compensation challenges and trends for 2023

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2022 has been a story of two halves for compensation professionals in the US. Q1 and Q2 experienced economic growth as Covid 19 concerns and restrictions were lifted globally. When the market kickstarted with dramatic labor shortages and rising inflation, we witnessed unprecedented base pay increases across nearly all sector verticals. Average wages increased by 4.2% but felt more like a reduction of 3% with rapidly rising prices. Compensation professionals faced the challenges of increasing pay universally across organizations, retaining talent in a highly competitive and labor-short market, and managing the stock market volatility, which adversely affected performance based LTIPs.

2022 - A summary of the year so far

Q3-Q4 has seen compensation programs move from proactive and competitive to cautious in the face of an impending recession, which many aren't entirely sure has begun or will begin next year. Interestingly, labor shortages remain across the US, so businesses are still offering top percentile pay to land talent while balancing costs. Additionally, the new pay disclosure requirement now effective in New York City has raised questions on how to position an organization's pay in such a public forum.

With market volatility at unprecedented levels and the partial collapse of the tech sector, many compensation professionals are also battling with a talent exodus of senior leaders whose shares have more than halved in value and as such are being tempted away by more traditional organizations that can ride out the storm. The concept of joining SME's looking to IPO in the next 12 -24 months is no longer as attractive, with conservative global businesses like Pharma, FMCG's and Banking offering security. This shift in mentality, seeking higher ground, is seen across the US.

With these variable headwinds, Compensation professionals remain in high demand and under extreme pressure, even more so than during the pandemic. Some themes to consider for next year for compensation professionals include:

Trends for 2023

Average pay is set to increase by 4.5% in 2023 – The compensation communication strategy is critical since this increase offsets inflation and could feel like a pay decrease for many.

New LTIP plan - With share prices fluctuating, a generous upfront equity award with a spicy vesting schedule may no longer cut it. Compensation professionals have already started looking at new schemes around collared stock and notional stock awards or deferred cash grants to ensure plans remain competitive in this market.

Say-on-Pay - While say-on-pay votes are non-binding, 2022 has seen record levels of negative votes on executive pay. 78 of the largest 3000 listed organizations voted against proposed executive pay and several high-profile companies made headline news for “shareholder revolts.” The vote stats increased by 18%, and the publicity of negative votes is on the rise. 2023 will no doubt be a year where the scrutiny levels on the CD&A remain high.

Compensation Communication - We have been engaged twice this year by businesses looking to hire Compensation Communication leaders. While this is not a trend, clear messaging and rationale is key. With social media being used more as a forum for employee dissatisfaction, it is critical that potential negative messaging is crafted sensitively and transparently.

ESG on the rise - In 2021, only 4% of the S&P 500 linked executive pay targets to ESG metrics compared to the FTSE 100, where 44% of companies achieved this. ESG is pushing into board level and compensation committee conversations and will continue to do so, pressuring metrics that impact executives.

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2023 is not going to be a “business as usual” year, and the need for organizations to have a robust, well-resourced and technically well-supported team has never been greater. We predict that hiring for experienced compensation talent will remain active during 2023, with a critical challenge in hiring individuals in executive compensation and technical comp exposure within niche areas like carried interest, co-investment schemes, and broader sales incentives.

Please feel free to reach out to us for any inquiries or comments.

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