

# How to Perform Salary Benchmarking



## Why Should Companies Benchmark their Salaries?

Having market intelligence as well as a good understanding of where your organisation sits in relation to the market is essential in order to set an effective reward strategy. This will enable you to recruit new employees at the right salary and ensure you are rewarding your existing employees appropriately in order to retain your key talent.

With a wealth of information available for free through recruitment agencies and online forums, employees are more informed than ever about market rates of pay for their roles. In order to compete for talent and retain key people in the long run, your organisation must not only develop fair and market competitive salary ranges but review them on a regular basis to ensure you are keeping up with the market.

## What Are Your Compensation Objectives?

Does your organisation have a reward strategy? Is your reward strategy linked to your business objectives? If so, you are likely to have a clear idea of what you are looking to get out of benchmarking salaries in your organisation. Your reward strategy should answer key questions such as:

- Who are your competitors?
- Do you want to be a market median payer or, for example, lead the market?
- How does base salary fit into your overall reward strategy in relation to, for example, bonus or benefits?
- Are you looking to drive high performance or is retention your top priority?

## Choosing the Market Data

The market data you use is the first and possibly the most crucial step in the salary benchmarking process. Any salary benchmarking process should engage with the business from the very start. If the right data sources are not used you may end up carrying out an extensive benchmarking exercise which lacks credibility as the business and line managers do not trust the data.

Building credibility with the business and line managers can be a challenge so it is important that you understand how market surveys work. You should be able to clearly articulate how the data is collected, whether data is aged, geographical coverage as well as how the final output is calculated. After all, this data will have an impact on the pay decisions managers make in the annual review process or when recruiting or promoting team members. If they don't trust the data that is being provided to them then it is very unlikely that you will be able to influence their decisions and coach them.

## Challenging Recruitment Salary Data

As an HR professional you will become accustomed to being inundated with recruitment salary surveys and job adverts from managers challenging the market data or employees challenging their own salaries. When looking at this information it is important to consider the following:

1. There are a wide range of salaries being advertised on the internet for each role. The employee will inevitably pick out the highest paid salaries. Organisations must make decisions based on in-depth market research and analysis rather than anecdotal data from a handful of companies
2. Job adverts and recruitment data tend to show what companies are willing to pay for positions in their company rather than what they are **actually** paying. For example, a role may be advertised with a salary of 'up to £50K' but the actually salary offered to the successful candidate may be significantly lower
3. Recruitment and job advert data is not robust and often based around job titles only. They don't tend to undergo a job evaluation and data cleaning process. For example, a finance analyst in one company may be equivalent to a finance manager in another. A good salary survey will look at the content of the roles and try to ensure that we are looking at equivalent roles when establishing salary ranges rather than equivalent job titles

Getting your salaries right could be the key to attracting and retaining some key people in your organisation. Given the potential impact, we would highly recommend investing in a good primary data source and perhaps using recruitment data to supplement this.

## Matching your Jobs to the Survey Data

Depending on the size of your organisation and available resources you will need to decide whether to benchmark all the salaries or pick out key roles. Either way, matching your jobs to the survey data can be a lengthy and often tedious process. It is tempting to base this on job titles but, as previously discussed, this is not going to provide an accurate reflection of the market. The job matching must be carried out by evaluating the roles, understanding the content as well as the required skills & competencies. Whether you have internal grades or levels within your organisation or not, carrying out a detailed benchmarking exercise will require you to be fairly comfortable and competent with job evaluation tools and methodologies. Otherwise, you should spend some time familiarising yourself and studying the salary survey methodology in detail.

Most salary surveys tend to have a job levelling structure. A job levelling structure will describe a series of progressively higher jobs distinguished by levels of knowledge, skills, and competencies. If your organisation also has a job levelling structure then it would be a good idea to establish a link or matrix between the levels in the survey data you have chosen and your organisational levels. This will simplify the job levelling process although we would still recommend a robust validation process and reviewing the roles thoroughly.

If, however, you do not have a levelling structure in your organisation then this process becomes a bit more complex. Again, subject to resource, you may want to pick out key roles in your organisation from various business areas rather than including every single role. To begin the benchmarking process you would ideally like to have role profiles and organisation charts for all the roles you are looking to benchmark. However, often the role profiles can be out of date and therefore meetings and discussions with the business can be a good way to kick start the benchmarking process.

## Presenting your Salary Benchmark Data

There are many ways you can present your salary benchmark data. However, perhaps the simplest and most effective way to do this is by showing the compa-ratio for each employee. Compa-ratio is calculated as the employee's current salary divided by the current market rate for that role as defined by the salary surveys you are using. Presenting reports in this way to the managers gives them just the right amount of detail and enables them to make more informed pay decisions.

Whether you present the salary benchmark data by showing compa-ratios or in any other way it is crucial that you run training sessions with the managers to give them an understanding of the data as well as the job evaluation process. Simply sending a pay report to managers without prior training or even a briefing can have an adverse effect. Managers can only make more informed decisions based on the benchmark data if they have a good understanding of it. You may be surprised by how much managers value market data if you have engaged with them from the start and they trust the data sources you are using.

**If you would like to discuss this in more detail or see how 3R Strategy can help you benchmark the salaries in your organisation, please get in touch with us at [hello@3r-strategy.com](mailto:hello@3r-strategy.com). Our clients range from small charities with under 20 employees to FTSE 100 organisations.**