



# HOW TO PERFORM Salary Benchmarking

 Rstrategy





## 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:



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Who are your competitors?



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Do you want to be a market median payer or lead the market?



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How does base salary fit into your overall reward strategy in relation to bonuses or benefits?



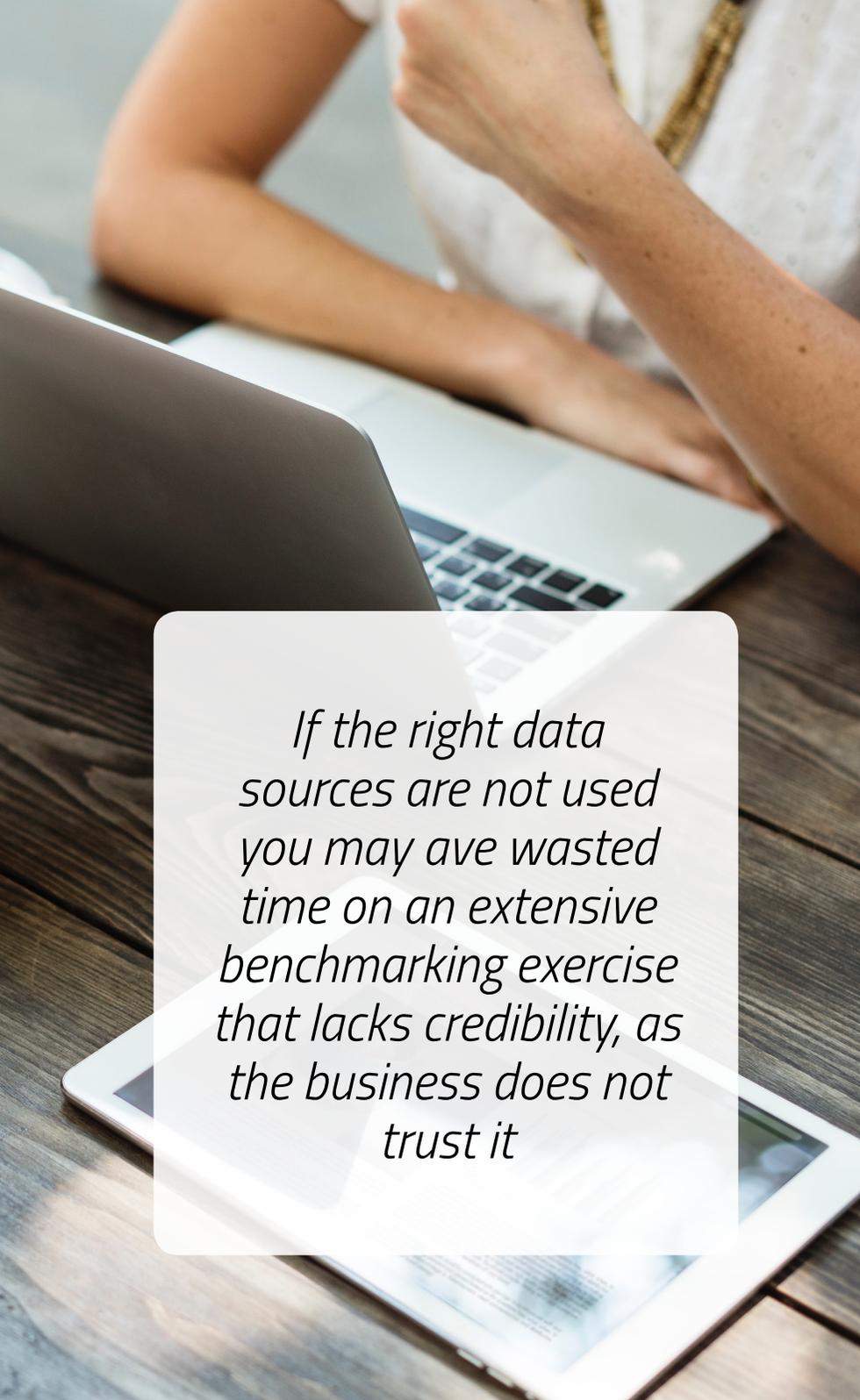
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Are you looking to drive high performance or is retention your top priority?

## CHOOSING THE MARKET DATA

The market data you use is the first, and possibly most crucial, step in the salary benchmarking process. Any salary benchmarking process should engage with the business from the very start.

Building credibility 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 it is aged, geographical coverage and how the final output is calculated. After all, this data will have an impact on the pay decisions managers make during annual reviews, on recruiting and promotions. If they don't trust the data that is being provided to them, it is unlikely that you will be able to influence their decisions and coach them.



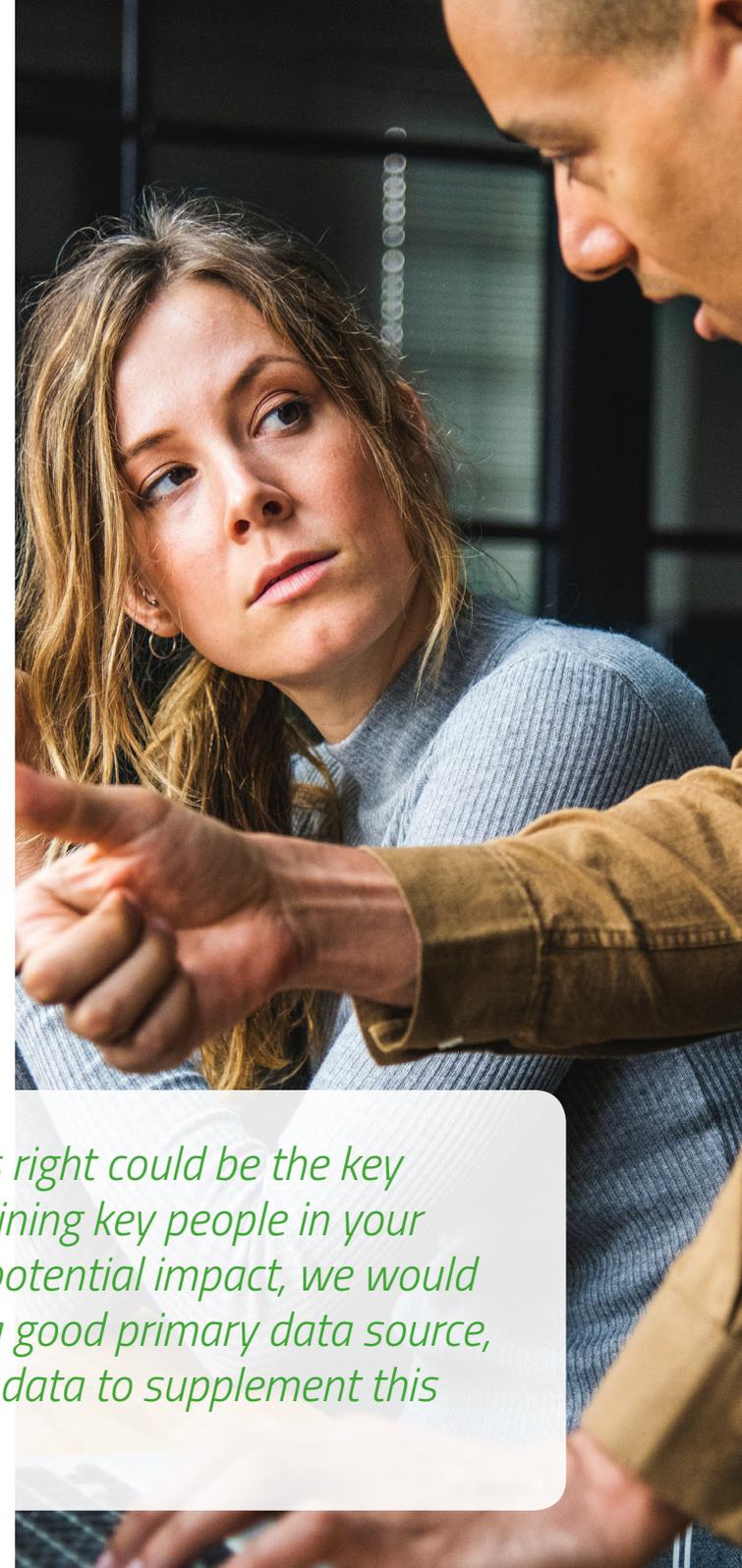
*If the right data sources are not used you may have wasted time on an extensive benchmarking exercise that lacks credibility, as the business does not trust it*

## 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:

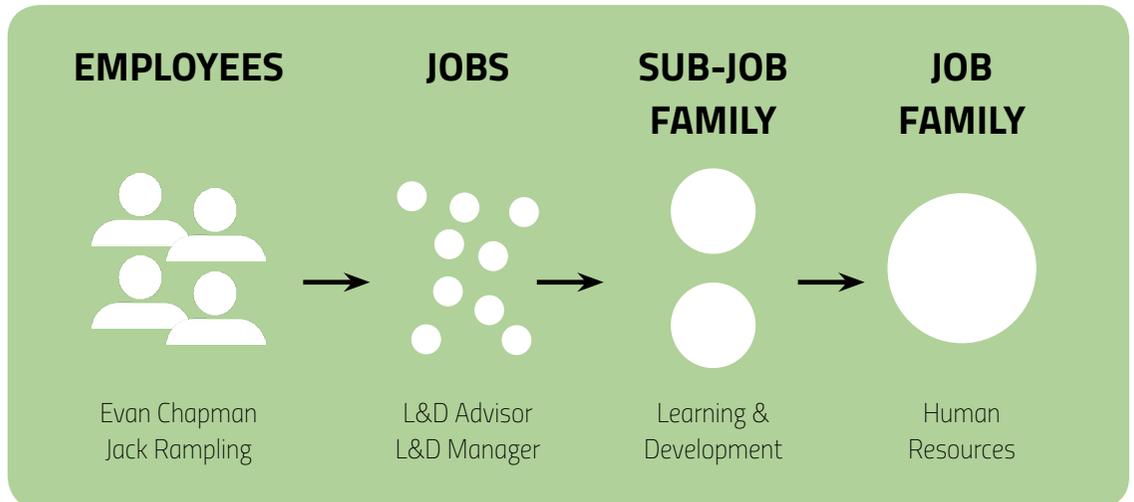
- 1.** There are a wide range of salaries being advertised on the internet for each role. The employee will inevitably pick out the highest paid salaries. Organisations must make decisions based on in-depth market research and analysis rather than anecdotal data from a handful of companies.
- 2.** Job 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 actual salary offered to the successful candidate may be significantly lower.
- 3.** Recruitment and job advert data is not robust and is often based on job titles alone, plus, 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; it will consider equivalent roles when establishing salary ranges, rather than equivalent job titles.

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





# MATCHING YOUR JOBS TO THE SURVEY DATA



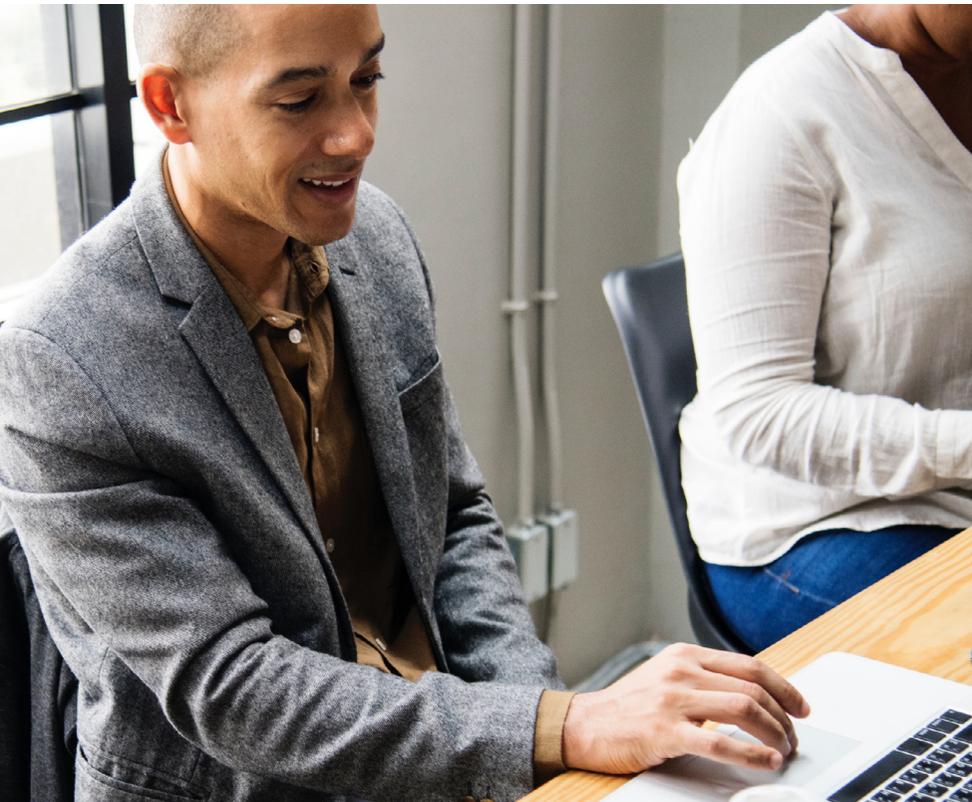
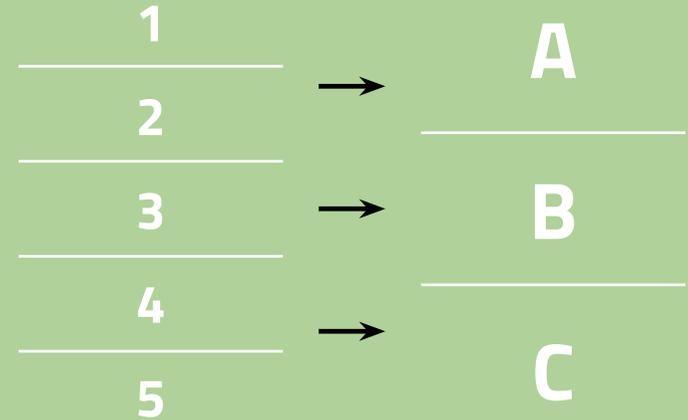
Jobs should not be matched into the survey using job titles – This does not provide an accurate reflection of the market. The job matching must be carried out by evaluating the roles, understanding the content as well as the required skills & competencies.

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.

## INTERNAL LEVELS

## SURVEY LEVELS



If, however, you do not have a levelling structure in your organisation, then this process becomes a bit more complex. To begin the benchmarking process, ideally you will have role profiles and organisation charts for all the roles you are looking to benchmark. If your role profiles are out of date or your business has gone through significant change, then you may need to start by reviewing and updating the role profiles in your organisation.

# PRESENTING YOUR SALARY BENCHMARK DATA

There are many ways you can present your salary benchmark data. 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 managers gives them just the right amount of detail and enables them to make more informed pay decisions.



## EMPLOYEE DATA

BASE SALARY	BONUS	TARGET TOTAL CASH
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<b>EMPLOYEE A</b>	50,000	5,000	55,000
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<b>EMPLOYEE B</b>	60,000	8,000	68,000
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## MARKET DATA

BASE SALARY	TARGET TOTAL CASH
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55,000	62,000
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55,000	62,000
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## COMPA-RATIO

BASE SALARY COMPA-RATIO	TOTAL CASH COMPA-RATIO
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0.91	0.89
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0.92	1.10
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## COMMUNICATING TO THE BUSINESS

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 your 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; they can only make more informed decisions if they have a good understanding of the data and confidence in the benchmarking process.





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

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