

14. MARKET RATE SURVEYS AND REWARD RESEARCH¹

Competitive pay levels and salary structures can only be developed and maintained if the external market is systematically monitored by a process of external benchmarking. This can be done using a range of sources from salary and benefits information to job advertisements, companies' annual reports information, confidential contacts and other forms of market intelligence. This chapter describes:

- the purpose of making market comparisons;
- the process of carrying out analyses of market rates;
- the sources of comparative remuneration data;
- how to conduct an organization or club survey; how market data should be used.

14.1. THE PURPOSE OF MAKING MARKET COMPARISONS

Market comparisons aim to compare external relativities, ie: 1) the rates and benefits provided for equivalent jobs in other organizations (market rates) with those provided within the organization, in order to ensure that the latter are fully competitive; and 2) the rates at which pay is increasing in other organizations (going rates) in order to provide guidance on pay reviews.

The data from market comparisons help organizations to:

- decide on starting rates;
- design and modify salary structures;
- determine acceptable rates of salary progression in pay structures and pay curve systems;
- review pay, incentives, bonuses and other forms of performance-related pay;
- decide on the types and levels of benefits to be provided;
- assess the level of increases required to salary levels generally and to
- the salary levels of individual employees;
- identify special cases where market rates have to be paid irrespective of the evaluated position of the job in the grade hierarchy.

14.2. THE PROCESS OF CARRYING OUT MARKET COMPARISONS

Sources of information

The main sources of reward information are:

- general published surveys and market information sourced directly from specialist electronic database providers;
- specialized occupational, professional, industrial or local surveys or database-sourced information;
- organization surveys/projects - ie those carried out by the organization, with or without the help of consultants;
- salary information and survey clubs - ie a group of organizations that regularly exchange information;
- published data in specialist or other journals, newspapers, business press, government reports and their corresponding Web sites;
- analyses of job advertisements;
- other market intelligence.

A brief description and comparative analysis of each of these is provided later in the chapter, followed by a more detailed examination of organization and club salary information projects. But before looking at these sources, it is necessary to review the basic considerations affecting market comparisons.

14.3. BASIC CONSIDERATIONS

When making market comparisons, the aims as far as possible are to:

- obtain accurate and representative data on market rates;
- compare like with like, in terms of data, regional and organizational variations and, importantly, type and size of job or role;
- obtain information that is as up to date as possible;
- interpret data in a way that clearly indicates the action required.

The problem of defining the market rate

¹ Armstrong, M. & Helen Murlis. 2005. *Reward Management*. A Handbook of Remuneration Strategy and Practice. Kogan Page, London, pp. 159-190

People often refer to the 'market rate' but it is a much more elusive concept than it seems. There is no such thing as a definitive market rate for any job, even when comparing identically sized organizations in the same industry and location. There are local markets and there are national markets, and none of them is perfect in the economist's sense. Different market information sources of the same types of jobs produce different results because of variations in the sample, timing and job matching.

No market information source is designed or, indeed, should be designed to show that one salary level is the 'correct' market rate for any given job. It should give as clear an indication as possible of the current operating or going range for establishing salary levels or setting pay structures and define which factors affect the distribution of individual salaries within it.

Despite these points, most pay specialists and market information providers will sometimes have to put up with the reader's expectation that their survey will give a 'correct' salary for a job for any given set of conditions. Some top executives, and others needing to make policy decisions but having restricted understanding of the problems of carrying out market research, still tend to believe that it is possible to find out exactly what the precise market rate is for any given job, in any industry, at any location, for any given age or experience level - preferably to the nearest pound! But this is not a reality and is unlikely to become one. Because survey data submission is voluntary, and because decisions about pay levels tend to be pragmatic rather than strictly logical, actual salaries are less predictable than many people would like to believe. When there are few data available, salary patterns tend to be fairly anarchic. Most salary decisions in relation to market information sources are conformist, which can mean that there are regular and predictable operating ranges for jobs covered regularly by well-established information sources rather than, for instance, new or rapidly evolving jobs not yet much subject to market information analysis.

This means that, however hard you work at getting accurate results, all you will obtain is an approximation - a range of possibilities. In spite of yourself you may, where data are hard to come by, be forced into averaging averages to obtain an informed view of the derived market rate. And that is a statistically undesirable process.

It should be remembered that individuals as well as jobs have market rates. When looking at a range of market rates you have to decide two things - first, what the rate for the job should be and, second, what the range for individuals in the job should be as they enhance their marketability through experience, training and 'track record' or performance. Specialist market information sources may give some indication of the range of salaries you should offer; for example, you could set the lowest point of the range at the median (the middle point in the distribution of salary rates covered by the data source) and the highest point at the upper quartile (the value above which 25 per cent of the values in the range fall).

The more you track the actual salaries paid to people in identical jobs in similar areas, the greater the accuracy of the market rate information. But this may require a tremendous amount of effort and you may need to question the cost effectiveness of the process. That is why some people rely on published sources and other readily available data. Increased accuracy can be provided by company (do-it-yourself) and club surveys, but cost typically limits how far you can go.

However, in spite of these limitations, surveys and other market information sources are necessary to provide indications, albeit broad ones, of where the organization stands in the market place. Considerable judgement is still required to interpret results, but at least that judgement can be based on information that has been collected and analysed systematically.

Data definitions

- *Basic (or base) pay*: gross pay before deducting national insurance, tax and pension contributions. It includes merit increments or incremental payments added into salary but excludes performance-related bonuses, overtime pay, fringe benefits and most allowances. In the latter case, the only exception may be a location allowance (eg a London allowance), which may or may not be incorporated in the base salary, but whether or not it is included should be made clear.
- *Cash bonuses*: any performance-related bonus or payment under an incentive scheme, which is not part of basic pay.
- *Short-term incentives*: all short-term variable bonuses and incentives that are not guaranteed, eg all company bonus scheme, profit share or incentive payments earned over a period of less than one year. *On-target variable bonuses expected*: the 'on-target' of all short-term variable bonuses and incentives expected in the current year, expressed as a percentage of current base salary.

- *Long-term incentives*: incentives earned over a period of more than one year. They are not guaranteed and include share plans (share options, restricted share plans, share appreciation rights and matched purchase of shares) and cash plans (multi-year goals, deferred awards, phantom plans, performance units or shares).
- *Total earnings* (sometimes called 'total cash earnings'): the sum of the basic annual pay and any cash bonuses received over the previous 12 months. This figure excludes the value of employee benefits. *Employee benefits*: details of the entitlement to benefits such as pensions, company cars, private petrol, mortgage assistance, loans, permanent health insurance, medical insurance, health screening, relocation packages, holidays, other forms of leave, sick pay, etc.
- *Other allowances*: any cash payments made in special circumstances such as call-outs, shift- or night work payments, car mileage allowances.
- *Total remuneration*: the total value of all cash payments and benefits received by employees (note that this involves specialist knowledge and that valuing benefits depends on agreed assumptions - data should be collected and analysed carefully and the definitions both of the constituent elements included and of the rubric for the results should be clear and consistent).
- *Salary structure information*: the salary scale or range in the structure for particular jobs.

Regional and company variables

Market comparisons should take account of the following variables that affect the comparability and validity of the data:

- *Location*: whether the jobs involved need to be assessed in relation to national, regional or local markets.
- *Industry*: usually analysed on the basis of a simplified version of the Standard Industrial Classification (SIC).
- *Sector*: whether the organization belongs within the public or private sector.
- *Organization size*: because it can affect job size, there is often some correlation between pay levels (especially salaries for managers) and company size. The following variables are typically taken into account:
 - financial indicators, eg sales turnover, or gross deposit for many financial institutions, derived from the accounts for the annual accounting period preceding the base date of the information collected and analysed;
 - the total number of employees, analysed as necessary according to location, company, division or group.

Job matching

Market comparisons are most valid when like is compared with like. This means matching jobs as far as possible in the following respects:

- function, eg general management, marketing, production; I sector - private or public;
- industry classification; I location;
- size of organization;
- range of responsibilities - the tasks or duties carried out by job holders;
- level of responsibility - size or weight of the job in terms of impact on end results, resources controlled, scope for exercising discretion and judgement, and complexity

The various methods of job matching in ascending order of accuracy are:

- *Job title*: this can be relatively misleading. Job titles by themselves give no indication of the range of duties or the level of responsibility and are sometimes even used to convey additional status to employees or their customers unrelated to the real level of work done.
- *Brief description* of duties and level or zone of responsibility: national surveys frequently limit their job-matching definitions to a two- or three-line description of duties and an indication of levels of responsibility in rank order. The latter is often limited to a one-line definition for each level or zone in a hierarchy. This approach provides some guidance on job matching, which reduces major discrepancies, but it still leaves considerable scope for discretion and can therefore provide only generalized comparisons.
- *Capsule job descriptions*: club or specialist 'bespoke' surveys frequently use capsule job descriptions that define the job and its duties in approximately 250 words. To increase the refinement of comparisons, modifying statements may be made indicating where responsibilities are higher or lower than the norm. Capsule job descriptions considerably increase the accuracy of comparisons as long as they are based on a careful analysis of actual jobs and include modifying statements. But they are not always capable of dealing with specialist jobs, and the accuracy of comparisons in relation to levels of responsibility may be limited, even when modifiers are used.

- *Full job descriptions*: full job descriptions of individual jobs, sometimes including a factor analysis of the levels of responsibility involved, may be used in special surveys when direct comparisons are made between jobs in different organizations. They can be more accurate on a one-for-one basis but their use is limited because of the time and labour involved in preparing job descriptions. A further limitation is that comparator organizations may not have available, or be prepared to make available, their own full job descriptions for comparison.
- *Job evaluation*: job evaluation can be used in support of capsule or full job descriptions and provides a more accurate measure of relative job size or weight. A common method of evaluation is necessary. In the UK, market information sources are created on this basis by both Hay and Watson Wyatt. This approach will further increase the accuracy of comparisons but the degree of accuracy will depend on the quality of the job evaluation process. Consistency depends on quality assurance of the evaluation process, both within organizations and across participants.

Timings of market information publication and collection

The competitiveness of current salaries can only be established by finding out what other organizations are offering and paying now. Pay data can easily become stale when the market is moving erratically, and the time lag between the collection of data and their publication is commonly three months. To mitigate this problem, market information providers sometimes offer updated results or have moved to produce information that is updated more frequently in line with client needs. The specific date for which the pay information is applicable should always be clearly indicated and any assumptions made if information has been updated should be clearly explained. Wherever possible, data providers should set out the pattern of the salary review dates of the companies included in the research.

Increases from one publication to the next - the importance of matched samples

Market comparisons involve not only assessing current market rates but also trends in pay increases in order to indicate the going rate.

The percentage rise in average pay between successive surveys will be misleading because of changes in the sample of organizations and losses, gains or replacements in the sample of job holders.

The problem can be alleviated by matching the sample of organizations so that comparisons are only made for organizations participating in both publications. But this does not cover changes in job holders, and the most refined matching process will isolate increases for individuals who have remained in the same job between consecutive base dates -referred to as 'same incumbents movements analyses'. This measure, however, may not distinguish between increases arising from general pay reviews and individual incremental, merit or performance-related payments.

Interpreting average, median and quartile increases

Since many employers review all aspects of salaries only once a year, the increase compared with a year earlier in the average earnings of a group of employees in a sample will usually approximate to the weighted average of the increases granted. The same is true of medians, with some qualifications. But rarely is the increase during a yearly timeframe in the upper or lower quartiles of an information source the same as the upper or lower quartile of the increases granted. This is because groups that have lower-than-average increases one year may often secure an above-average increase in the following year to restore their position (which may well be below the median of the market). Organizations that implement pay freezes or give below-average increases continuously over a period of years tend to end up with salaries going right through the market floor. If an organization chooses to place its salaries in the lower quartile of the market and reaches this position by awarding a lower-quartile increase for a year or two, what then? To maintain salary levels at the lower quartile of the market (or indeed at any chosen fixed relativity), it may now need to offer near-to-average increases to keep up with others in the market. Otherwise salary levels will fall below even the reduced targets that have been set and will continue to do so indefinitely.

Presentation of market information

Analysed pay data can be presented in two ways:

1. Measures of central tendency, ie the point about which the several values cluster. These consist of:

- The arithmetic mean or average (A), which is the total of the values of the items in the set divided by the number of individual items in the set. The average, can, however, be distorted by extreme values on either side of the centre.

- The median (M), which is the middle item in the distribution of individual items - 50 per cent of the sample falls above the median, 50 per cent below. This is unaffected by extremes and is generally preferred to the arithmetical mean, as long as there is a sufficient number of individual items (the median of a sample much less than 10 is suspect). Medians are often lower than arithmetic means because of the tendency in the latter case for there to be a number of high values at the top of the range.

2. Measures of dispersion, ie the range of values in the set, which provides guidance on the variations in the distribution of values of items around the median. These consist of:

- The upper quartile (UQ): also called the 75th percentile - the value above which 25 per cent of the individual values fall.

- The lower quartile (LQ): also called the 25th percentile - the value below which 25 per cent of the individual values fall.

- The interquartile range: the difference between the upper and lower quartile values; this is a good measure of dispersion.

- Upper and lower deciles: also called the 90th and 10th percentiles respectively - the values above and below which 10 per cent of the individual values fall. This is less frequently used but does provide for greater refinement in the analysis of distribution.

- Total range: the difference between the highest and lowest values. This can be misleading if there are extreme values at either end, and is less often used than the interquartile range, except where the sample is very small.

Presentation in tabular form

Data from information sources are usually presented in tabular form. Tabular formats should identify the job, the size of the sample and, where appropriate, may include analysis criteria such the size and type of organization and its location. An example is given in Table 14.1.

Table 14.1 Presentation of market data

Job title: Marketing Executive	LQ	M	UQ	Sample
Turnover (£m) 1-10				
Base salary	33,099	38,272	45,856	27
Total earnings	33,659	40,013	47,433	
Turnover (£m) 11-50				
Base salary	33,900	39,000	46,384	31
Total earnings	34,701	42,293	48,281	

An example of a layout of results of a survey is given in Table 14.2. This quotes the average gross pay for the job and gives tabulated details by companies of salary ranges and average salaries and bonuses.

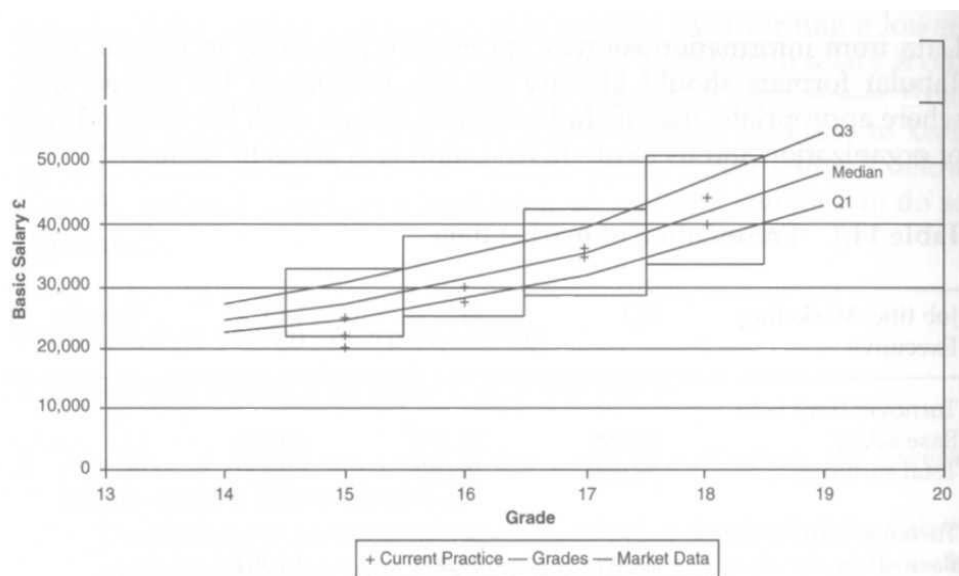
Table 14.2 Presentation of survey results

Dispersion	Base salary	Total cash	Bonus
	£	£	£
90th	55,400	63,420	10,357
75th	51,964	54,756	8,064
50th	44,403	49,107	6,230
25th	39,913	42,036	4,605
10th	33,570	36,810	3,218
Average	45,457	49,097	6,659
No. of incumbents	101	101	67
No. of companies	38	38	17

Presentation in graphical form

The significance of the information can sometimes be revealed more clearly if the tables are supplemented by graphs, which can highlight significant data or trends as in the example in Figure 14.1.

Figure 14.1. Graphical presentation of survey results



HR Department - Current Practice vs Market Data and Salary Range

In practice, there are many variations on these forms of presentation, now often produced from computer programs available in the market place. Further information on statistical terms used in pay surveys and analysis is given in Appendix C.

14.4. POLICY AND PRACTICE

A useful distinction to keep in mind when analysing and using market data information is that between 'policy' and 'practice'. An organization's reward policy can be defined as the various schemes, policies and rules that form the framework or guide for how an organization rewards its employees. Policy information is generally collected and analysed in questionnaire format. An organization's reward practice is the pay, benefits and other remuneration elements that each individual employee in each role within an organization receives. Practice information is generally collected in spreadsheet rather than questionnaire format.

Company and pay data commonly collected/presented

Policy

- company name;
- sector/industry type;
- number of employees;
- annual sales turnover or other financial measures;
- salary ranges - minimum/maximum/mid-point;
- salary review dates.

Practice

Data by job:

- job title/code; number of incumbents;
- modifier (+, = or) used to indicate the relationship of the organization's job to that chosen for matching; average actual basic salary/total cash;
- median actual basic salary/total cash;
- highest actual basic salary/total cash;
- lowest actual basic salary/total cash; target bonus.

All surveys collect salary data, but the information collected on cash additions to basic pay and fringe benefits varies greatly. Specialist market data providers collect and analyse a comprehensive range of benefits side by side with salary data. This allows a greater picture of reward packages to be given, for example total remuneration/reward values can be calculated and used to provide analyses that cover both pay and benefits elements.

14.5. PUBLISHED MARKET DATA SOURCES

The impact of new technologies on market data sources

The development of IT technologies is clearly a significant contributing factor to the increased variety of market information now available for organizations to consider. The standard use of computer programs, ranging from standard office programs, such as spreadsheets and databases, to the use of e-mail and the Internet as a medium for delivering and sourcing information,

is a development that has changed the ways in which market data providers present and deliver information to organizations.

Changes to the format and delivery of market data

A key example of changes in market data format is the relative demise of the survey book format. Until recent years, the salary survey -commonly a paper-based book containing static tables and graphs of pre-chosen market information - was the most common format of published market data available. While the survey format still exists, paper publication is increasingly being replaced by electronic formats such as standard computer spreadsheet formats or pdf document formats that can be delivered directly via e-mail or published on and downloaded from Web sites.

The existence and growth of electronic and interactive data formats is clearly due to the now standard use of computer technology within reward practice. Therefore, receiving data and information in a format that is at least compatible with (if not able to link into and transmit data to and receive data from) in-house HR and other organizational systems – e.g. SAP and PeopleSoft - is a necessary requirement for many market data users.

Interactive market data sources

Examples of interactive market data that combine new technology in both data format and delivery are services such as Hay Group's Hay PayNet and Watson Wyatt's Reward. This generation of data sources enables participant users to access and tailor market data analyses from a large database rather than ordering pre-designed, standard analyses delivered in a static survey format. Interactive market data sources provide the user with the choice of different analysis criteria and concepts so that they can receive data outputs against their chosen criteria presented in the concepts required by their reward policy. There is also ability to choose the specific breadth and depth of the data for an analysis - from a single job, to a set of functionally specific roles to a whole family of jobs against a market defined by industry, turnover, etc. -

depending upon the specific contents of the database. Data can also be transferred to wider HR systems, downloaded from and input into such systems for comparison capability and stored within the interactive platform itself by multiple users from an organization.

The increasing interactivity of market data sources has enabled reward specialists to develop their own analytical skills in the arena of obtaining market data and in comparing their own organizational data against other data sources. In the same way that the use of specific HR systems is now a recognized skill on HR CVs, the use of leading market data sources as well as the associated analysis skills is becoming an increasingly recognized and marketable skill.

Interactive capabilities and data quality

While technology has developed the format and delivery of market data, the technological sophistication of a particular system and the interactive capabilities it possesses should not be chosen over the quality of the data that is delivered. When choosing a market data source it is vital to evaluate the interactive possibilities of the system itself but above all to focus on the suitability of the data for the purpose it will be used for. Within this changing market, principles for assessing the suitability of the market data to the organization's requirements must still be firmly established - perhaps including the additional considerations of new and improving technology and its impact on choice of format, delivery medium and ease of use and interpretation.

Evaluating market data source/survey reliability

Market information sources can be further distinguished as being either those produced by Hay Group, Computer Economics, Watson Wyatt and Towers Perrin, which are available only to participants, or those sources available 'over the counter' (eg Monks, Remuneration Economics and Reward). Whichever type is being investigated, it is advisable to ensure that they will meet your requirements for relevant information. Their potential value as a reliable information source can be evaluated with the help of the following checklist:

1. Source

Who created the data source:

- a firm of general/specialist management consultants;
- a recognized organization specializing in salary and benefits surveys;
- an employment agency;
- an employers' association;
- a professional body;
- a trade union;
- the government or one of its agencies;
- a company/employer wishing to exchange salary data;

- a specialist or other journal?

2. Database

What are the data based on:

- actual salaries paid to matched jobs or responsibility levels;
- average salaries for jobs/ grades/levels;
- estimated market price given by employers where no direct job match has been made;
- recruitment salaries - offered, asked or paid;
- annual company report data based on audited earnings for the previous financial year;
- informed opinion?

3. Sample composition

Who participated:

- other organizations similar to or competing directly with the user;
- individual members of professional bodies or trade unions? Are there:
- enough participants to provide acceptable comparisons assuming that the methods of collection and analysis are effective;
- matched samples of participants either on the basis of the same individuals doing the same jobs or the same companies from year to year?

4. Data collection

How were the data collected:

- personal collection by the data producer to discuss job matching and current salary issues for the jobs in question;
- postal, online or telephone questionnaires (with what response rate?);
- from employers or job holders directly;
- input on to a well-designed, clearly explained questionnaire?

5. Job matching

How accurately are survey benchmark jobs or levels of responsibility matched:

- against job titles;
- against 'capsule' job descriptions or rank definitions with provisions for separating those with more or less responsibility than the core definition;
- against full job descriptions/definitions of responsibility level;
- by using an agreed measure of 'job size', eg the same method of job evaluation used by all participants with checks on the consistency of grading an application?

6. Timing

How up to date are the salary data?

- What is the distribution of salary review dates among participants? Are data on this provided?
- Are data correct on a given salary date or given over a defined period, eg three months?
- How much time has elapsed between data collection and the publication/circulation of results?

7. Presentation

- Full details of sample composition and response rate;
- tables listing average, median, upper and lower quartiles (or other quartiles such as octiles and deciles);
- lists or bar charts/scattergrams of the raw data from which the summary analyses are calculated; coded by size/type of organization to allow more detailed analysis; giving current scales/ ranges/actual salaries where not too commercially sensitive;
- analyses by company size, industry, location or other relevant factors;
- regression lines to give a 'feel' for market position; if so, is the sample or substance basis clearly explained?

8. Increase data

How valid is the information provided on pay increases (often hard to interpret)?

- Is it based on matched samples of individuals in the same job year on year/organizations participating in the same research?
- Do the percentage increases quoted include performance or contribution awards, bonuses, cost of living adjustments, or a combination of these, and how well is this explained?
- Is the basis for calculation made clear?

9. Other data

What else do the data contain:

- details of major benefits/entitlements;
- amounts/types of incentives/profit-sharing payments;
- details of salary administration policy;

- a commentary on current developments including special areas of market pressure or other major influences, written by someone able to interpret the data effectively?

10. Cost

Is it worth its price in terms of:

- savings in company/personnel resources required to obtain equivalent data;
- the time/effort involved in participation?

11. Integrity of market data -producers

Does the producer maintain consistent and professional standards? Does the market data provider:

- state when samples are too small to provide useful analysis and define the point at which this is reached;
- show ability to adapt/improve in response to changing market demands;
- include the availability of advice on the interpretation of the data, and is this available free/for a fee;
- give good value for money?

12. Purpose

Why were the market data collected:

- as part of the producer's sole business activity;
- as an occasional/major part of other business/ consultancy activities;
- to provide other organizations/individuals with data on a particular sector of the market;
- to put forward a point of view;
- to attract press coverage?

14.6. GENERAL PUBLISHED MARKET DATA

There are many types, formats and mediums of market data, but the quality of data they provide varies enormously. Both the Executive Compensation Review of Incomes Data Services (IDS) and the Pay and Benefits Bulletin published by Industrial Relations Services (IRS) publish regular reviews of market data sources and analyses of the trend data they contain. Incomes Data Services also publishes a Directory of Salary Surveys every couple of years, which is essentially a consumer's guide to the whole of the survey market. IDS and IRS also analyse pay settlements and pay trends for all types of employees.

14.7. GENERAL MARKET DATA SOURCE CONTENTS

General market surveys, such as those produced by Hay Group, Remuneration Economics, Monks, PE International, Reward, Watson Wyatt and Towers Perrin are based on data collected from as large a number of participating organizations as they can attract - typically from clients and by contacting large numbers of employers. Outputs -from static survey format to interactive data analyses - can display base salary and total earnings levels paid on a given date and a certain amount of data on benefits entitlements. Most producers also provide data on annual salary movement. Sources tend to present data grouped by job title and function, and by job size or level of responsibility in relation to company size and type. The most usual company analyses are by industrial sector and size, in terms of annual sales turnover and number of employees. Interactive data sources, such as Hay Group's Hay PayNet and Mercer's Pay Monitor provide the organization with the ability to tailor analysis outputs to include a variety of analysis criteria.

Regional, local and sector considerations

Most data sources include some indication of regional variations and can be expected to add to this, given the interest in regional pay difference for jobs where local market influences are more important than national trends. Clerical and shop-floor jobs that are recruited using local sources need local salary analyses to give an acceptable picture of the market - especially among smaller organizations. National data will always be needed, however, for jobs that are recruited on a national basis. It is important to remember that, where for instance there appear to be regional differences in management pay, this will almost always turn out on deeper analysis to be related to the size of the job and nature, age and culture of the industry rather than just the location.

Traditional engineering companies tend to pay less than their hightech counterparts and they tend to be located in different parts of the country. They may often not demand the same academic background and level of skills from the managers they employ. Nor, sadly, are some of them in a position to afford higher salaries for better-qualified managers able to improve profitability through innovation and improved financial management, other than in exceptional cases.

14.8. TAILORED MARKET DATA SOURCES

Market data providers can be asked, at a price, to extract data relating to particular firms that participated in a data source. These data are, of course, anonymous, and are only made available if a reasonable number of firms are involved. They can be very helpful if you want more specific information about your own industry. In the same vein, interactive data sources such as Hay Group's Hay PayNet allow an organization to create a 'peer group' of companies that they consistently wish to compare themselves against - defined by similarity of size, industry, location, job types alone or in combination - and then run tailored analyses for the group on an ongoing basis. By isolating the data of peer organizations, particular trends and market movements relevant to an organization can be tracked on an ongoing basis. Again, the data themselves are anonymous and are only made available if a reasonable number of firms and corresponding data exist.

14.9. SPECIALIZED PROFESSIONAL, INDUSTRIAL OR LOCAL SURVEYS

There are three basic types:

1. Analyses of members' salaries conducted by professional institutions; local or national market surveys of particular industrial groups produced by employers or trade associations.
2. Local or national market studies carried out regularly or on a one-off basis by consultants, either for a single employer or for a group of organizations that may share the cost (a multi-client study).
3. Professional institute surveys are usually more concerned with providing salary data in relation to age, qualification and membership status than they are with placing members in their organizational context. They therefore provide useful salary profiles and salary movement data, but are often of little help when it comes to looking at an individual's place in the company reporting structure in relation to particular sizes and types of organization. Some are now including analyses by function and level of responsibility within the organization, but the relevance and clarity of the definitions should be looked at carefully. They should, therefore, mainly be used as an additional check on more specific salary data from which real job comparisons should be clearly identifiable.

These professional institute survey findings are widely read by their members, who may seek to use them either as individuals or through their unions as a negotiating base for salary improvements. If this occurs, it is essential to be familiar with the particular survey quoted and aware of any limitations in the validity of the data. If it does not correlate well with more specific salary market data, the reasons should be analysed and explained. There may be distortions caused by the inclusion, for example, of members who are high-flyers and have reached director status early in their careers, too large a proportion of members working for highly paid consultancies or multinationals, members who have moved on to more highly/lowly paid areas outside the specialism, or those who are 'blocked' within an organization because performance or unwillingness to move or take extra responsibility holds them back.

The surveys conducted by employers and trade associations deal mainly with jobs specific to their industry for which reliable outside salary data often do not exist. They cover a limited market and are useful because they can be very specific about job definitions and organization structures for the staff covered. Often they are only available to participating organizations who may then share the cost of data collection and analysis. They may be local or national and by no means all are produced regularly. It may often be worth checking with the trade association appropriate to the company whether surveys of this kind are likely to be produced before special company market surveys are undertaken.

Employers who have neither the time nor in-house expertise to conduct their own market studies are increasingly opting to commission consultants to carry out this task. The approach used is usually very similar to that outlined in the section below on company surveys, and consultants involved in this sort of exercise will need to be briefed accordingly. The choice of appropriate consultants for this type of 'one-off' study should be based on firm evidence of expertise in the field of market data provision and a good level of understanding of the personnel philosophy and market posture of the commissioning employer.

14.10. COMPANY SURVEYS

These are surveys conducted by a company approaching others to exchange comparative salary information on a 'one-off' basis. Company surveys can be conducted with or without the help of consultants. The use of consultants provides for expertise and confidentiality in the collection and analysis of data and saves time, but can, of course, be expensive.

Company surveys can be as simple or sophisticated as required. They can be as quick and cheap as simple confidential 'pricings' or exchanges of information over the telephone with

established contacts willing to exchange data, or a fully fledged study of pay and benefits that is coded and circulated to all participants.

The principle advantage of the one-off company salary survey is that it is 'Безопасно'. The company alone decides which jobs it needs to study and which of its local or national competitors should be invited to participate. This should, in theory, produce the best possible comparative data. The main drawback is the time it takes to complete this kind of exercise and the cost and organizational implications of taking staff away from other work while the survey is in progress.

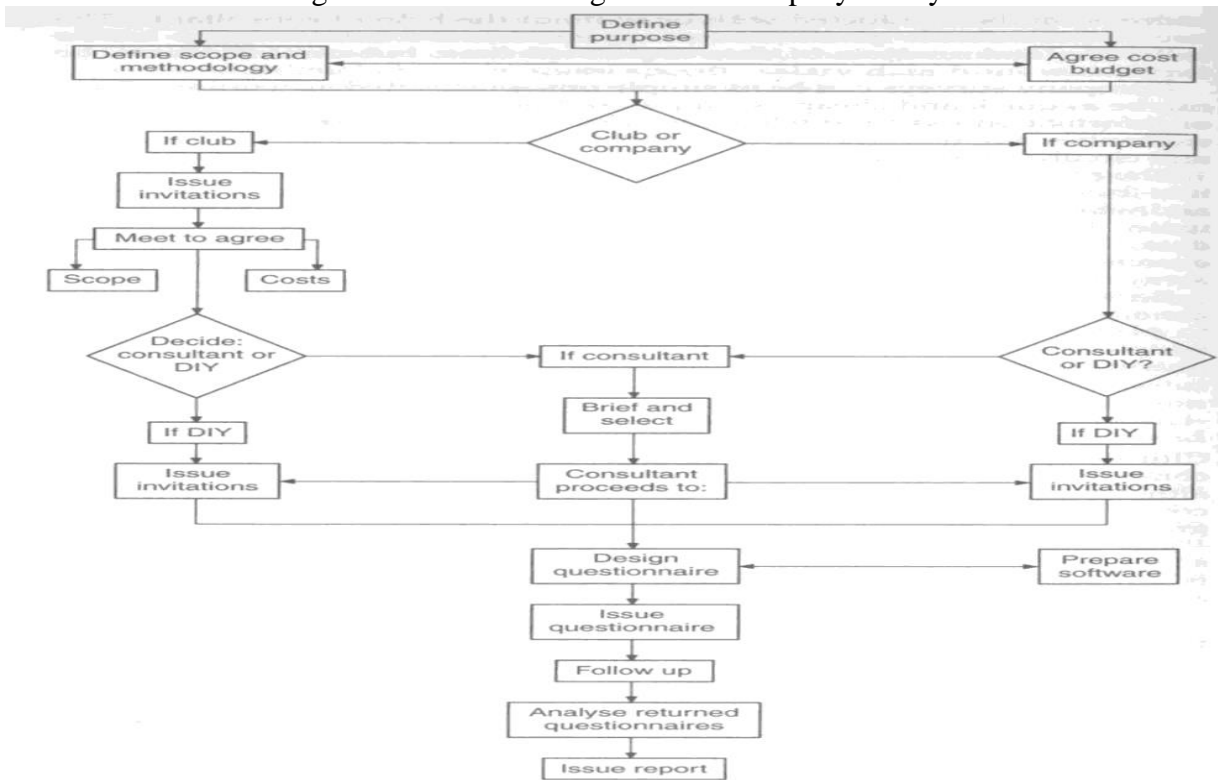
Because of the time, effort and cost of running company surveys, there are advantages in joining or setting up a salary club. The methods used to plan and conduct a company survey are basically similar to those adopted by salary clubs, as described below. The sequence of activities is illustrated in Figure 14.2.

14.11. SALARY CLUB SURVEYS

Clubs may be administered either by management consultants or by companies themselves. Clubs tend to operate in single industries, although some cover a range of industries - a survey of 'blue-chip' companies, for instance. Many cover all managerial and professional grades, although there are those that cover only one employee category - graduates or accountants, for example, within one industry. When a single employee category is chosen, this will normally be because there is strong competition for people with skills that are in demand, eg accountants or software engineers.

Club surveys - checklist

Figure 14.2 Conducting a club or company survey



Membership criteria

Which types of company will be eligible for membership? Will they:

- all be in the same business, i.e. competitors;
- all be of similar size and type, e.g. all blue-chip;
- all be in the same area;
- all have similar parentage, e.g. all subsidiaries of US multinationals?

- Will separate parts of the same company be allowed to participate or will only aggregate data be accepted? How will decentralized companies be treated?
- Will there be a pre-set minimum and maximum number of participants?
- Who will decide on requests to join the club from companies that are 'qualified' to do so? Will existing members have a veto? Will membership be restricted to companies that are able to provide data on a specified minimum number of jobs?
- Will it be possible to expel a club member if it transgresses club rules?

Collecting the data

- Who will collect the data:
 - one of the members;

- a combinations of members;
- a consultant?
- How frequently will a survey be conducted?
- annually;
- every six months/quarterly;
- on a rolling basis as pay reviews happen?
- How will accurate jobs matching (pricing) be ensured? By:
 - using summary job descriptions/role profiles;
 - using an agreed form of job evaluation/sizing (eg Hay Group or Watson Wyatt);
 - personal visits to participants to discuss differences in job scope and other problems;
 - a 'regular audit' of job matching?
- Will a postal questionnaire be used to collect data, or a personal visit/interview or an e-mail containing spreadsheet and questionnaire data to be submitted via e-mail or via a secure Web site?
 - What data will you collect:
 - basic actual salaries of individuals in post;
 - salary ranges;
 - incentive/bonus payments;
 - other cash additions to pay;
 - share options and profit-sharing payments;
 - fringe benefits including pension, death-in-service provisions, cars, medical insurance, loans etc?
 - Will the survey be 'open' or 'closed', ie will participants be able to identify the salary ranges or the salaries paid by other members?
 - Will all grades of employee be included in the same survey, or will separate surveys be conducted for manual, non-manual, professional and managerial grades?
 - Is a 100 per cent response rate expected? What sanction will the club impose if members fail to provide data?

Analysing and presenting the results

- Which analysis format/program will be used? Which medium of distribution will be used?
- Will actual salaries and salary ranges be listed by company (using a simple number code) in rank order?
- What statistical analyses will be produced from the aggregate data:
 - averages;
 - medians;
 - quartiles (if large enough sample)?
 - interquartiles (if large enough sample).
- Should these be related to individuals' salaries, company averages/ medians, or salary range mid-points?
- Will any significant regression or correlation tests be made on the statistical results?
- How will the results of the club survey be compared with general data on salaries, from commercial surveys etc?
- Will club members be charged a fee to cover the cost of analysing the results and producing the survey report

Setting up the salary club

The establishment of a salary club may start from a more informal exchange of salary information between two or more organizations that employ similar types of staff. A club may be the result of individual initiatives by one or two compensation specialists within companies. In some industries, the computer industry for example, there is more regular exchange of salary information than in others. Some consultants specialize in club survey work in certain industrial groups. If the target group is sufficiently finely defined, as for example in the international banking sector and the pharmaceutical industry, then not only is a homogeneous group of employees being surveyed, but also a very high proportion of the potential numbers of participants will probably take part.

Approaching companies

The exchange of accurate, up-to-date salary information depends on mutual trust. This will exist among established contacts but this relationship has to be carefully built up when

individuals are contacted for the first time. This can be done over the telephone but, unless the person responsible for the survey has a particularly confident and persuasive telephone manner, a carefully drafted letter or email giving background material may be a better approach. Letters/emails may in any case be preferable because the recipient then has time to consider carefully whether it is worth participating and is unlikely to make a snap decision based on a single conversation. Letters/emails may be ignored, but this problem is reduced if they are worded properly, and participant rates can be boosted by following up with a telephone call. The subsequent offer of a personal visit or invitation to a forum meeting is an additional way in which relationships between organizations can be built.

In any invitation to an unknown company the messages that have to be communicated are that:

- a responsible individual/consultant is conducting the survey;
- the survey will be carried out competently and in confidence;
- the information collected and shared will be relevant, up to date and useful;
- the company will not be put to too much trouble.

Which jobs to include

The major advantage of running a club is that participants to the survey know who the other participants are and that their data are relevant. When members of the same club are in the same industrial sector they may be thought of as competitors for the same type of staff in the same salary market. This is particularly true for managers and specialists whose skills are easily transferable from one company to another in a similar line of business. At managerial level, members of the same club typically employ a rather homogeneous group of staff in terms of the experience required, the demands of the job and their qualifications. Some clubs exchange salary information only on managerial and specialist grades, eg from first-line to senior management, while others cover technical and professional grades, clerical or indeed only manual employees.

Job matching and pricing

Club surveys offer a potentially better quality of job matching than industry-wide market data research covering very heterogeneous groups. Most salary clubs take great care over this stage of their research.

A typical approach to assist the matching process is to circulate a profile job description for each job to participants. This will contain the job title, a brief description of the job's responsibilities, reporting level, supervisory responsibility (number of subordinates), together with the typical age and/or experience and qualifications an incumbent of such a job might have. An example of a profile job description used in market data analysis is given in the box below.

HR/Workforce Planning Manager

General characteristics

Develops and implements systems and programs for identifying and describing the human resource pool that is available to the organization. This position is often occupied by an individual contributor who is an expert in the design and implementation of systems. Although these systems may vary in their degree of sophistication, this incumbent must have a thorough understanding of the business, its strategy, its people requirements and its resources.

Representative activities

Analyse business plan and develop forecasts of human resource requirement.

Identify human resource shortages and surplus of talent to meet strategic needs.

Identify data elements to be included in the human resource inventory system.

Develop systems to collect and maintain current data. Develop candidate lists for vacant positions. Maintain inventory of key personnel. Monitor data input.

The key to success in any salary club survey lies in accurate job matching, a process demanding painstaking work and eternal vigilance. The wholesale regrading of a set of jobs in one or two organizations could potentially throw the results of an otherwise useful survey. The communication of changes in internal relativities is essential to the reliability of survey results. A regular audit is desirable to keep track of company regradings of jobs and to ensure they are still being matched with similar jobs in other companies.

Where individual jobs cannot be matched, organizations may be asked to price them. This involves assessing the relative worth of a job in relation to other jobs carrying similar responsibilities in areas or grades where reasonable comparisons can be made.

Salary data collection

The options for both the distribution and collection of data have expanded due to the development of IT technologies over recent years. Both standard office and specialist software and programs can be utilized to save time and smooth the process of distribution and collection.

Examples include the distribution and collection of data via e-mailed spreadsheets and questionnaires and the utilization of fax and telephone interviews to collect data. Recently, the ability for organizations to input both their questionnaire and salary data via secure Web sites has been developed. Mediums and formats for distribution and collection should be chosen because of their ability to ease and speed these processes rather than because they are currently seen as the most high-tech and innovative. It is important to take into account the relationship with and the technological capabilities of the participating organizations when choosing the medium and format in which the data will be collected, analysed and distributed. In many cases opting for more than one option of distribution and collection medium and format will yield higher participation rates and work more effectively.

Collection will be made easier if clear instructions are included with any questionnaire/spreadsheet distributed, as this will provide them with a full picture of what is expected of them. It is also important to include clear indications of where guidance and assistance in completing any materials can be found. Clear, informative instructions coupled with a well-worded cover letter that clearly sets out the necessary return date and offers help with completion can greatly improve participation levels and quality.

Support is especially important when organizations are carrying out their own job matching. The need for accuracy of job matching needs to be carefully considered and monitored and the relevant and necessary support offered to all participants. It is always worth telephoning companies that have not yet returned responses a few days before the deadline to check whether or not the questionnaire has arrived safely or whether there are any problems with job matching that need to be ironed out. In these circumstances the companies may have to be visited to deliver new questionnaires and to collect the comparative data on the spot. However inconvenient this is, it should greatly improve the scope and quality of the data collected. Building time into any schedule to assist with completion and submission of data materials and for late submissions should be considered.

Club surveys, unlike many commercial surveys, collect information not only on actual salaries, but also on salary ranges. Questionnaires are used and, typically, there are number codes for each company and for each job category covered.

The calculation of benefits, and the assignment of a value to them for comparative analysis purposes, can be important in gaining accurate and appropriate results depending upon the jobs and roles being analysed. Therefore, many club surveys include at least a basic coverage of benefits in the information collected.

An example of the company information and the detailed fringe benefit data collected by one club survey is given below:

General company information: number of employees, annual sales turnover;

Salary increases: general increases (timing and last percentage increase), and individual increases (criteria and timing);

Graduate starting salaries: basic salary plus bonus, projection for the next year;

Incentive/bonus schemes: basis of payment, employees qualifying for payment, frequency and amount of payment;

Overtime premiums: for managers, monthly and professional staff, and weekly paid staff;

Shift premiums in relation to shift work patterns;

Company cars: for business need or status, engine size (benchmark car), private petrol paid, and charges for private use; Payment for use of employees' own cars: mileage allowances by car engine size;

Regional and occupational allowances: London allowances, telephone and professional institute expenses;

Relocation expenses - new employees: disturbance, removal, temporary housing allowances plus bridging loan facilities;

Travel and accident insurance: in the UK and overseas;

Private medical insurance: insurer, category covered, proportion paid by the company and type of cover;

Pension scheme: type, i.e. final salary or money purchase, employer and employee contribution rates, escalation of pensions in payment and ex gratia supplements;

Pension scheme - benefits: entitlement per year of service (fraction), definition of salary used for pension calculations, contracted in or out, and life assurance provisions;

Pension scheme - additional benefits: death in service, early retirement, partners' and dependants' pensions provisions;

Sick pay entitlements;

Long-term disability absence: salary continuation entitlements;

Call-out and stand-by payments and premiums;

Holiday entitlements: standard entitlement and additional service days;
Subsistence allowance: for short and long stays on company business;
Overtime pay for travel: differentials between hourly paid and salaried staff;
Share options: entitlements by seniority;
Profit sharing: basis, annual percentage paid (including profit-related pay under the 1987 Finance Act provisions).

Analysing and presenting the results

As survey returns come in, they should be checked carefully to ensure that acceptable matching or pricing has been given for each job. Any doubtful figures should be referred back to participants and discussed with them. Where comparisons turn out not to be close enough to be acceptable, the data should be rejected - preferably with the agreement of the participant concerned.

Salary club surveys can generally be processed very quickly and participants typically expect a report within a month of sending in their returns. Strict deadlines usually have to be set and enforced (see above) to ensure this is possible. Whoever is responsible for the survey should also ensure that the analysis can begin as soon as all returns have come in and been checked.

The methods used in the analysis and presentation of survey results will depend on the number of returns received and the degree of sophistication in salary policy of both the survey producer and the participants. It can therefore vary from simple histograms (bar charts) showing salary scales or actual ranges paid by participants and coded company by company, to complex statistical analyses that present the data in relation to a number of different variables. In selecting which forms of analysis will yield the most meaningful results and present the data in a way that helps the salary policy decision-making process, it helps to concentrate on what the data are actually based on and who will use the findings. For example, rigorous analysis techniques such as regression analysis are not appropriate for smaller data samples. However, for data based on large samples such techniques have their value and can be used to effect. What matters most is presenting the available and relevant market data in a way that shows what the actual operating salary range is for any given job - and where the extremes of practice lie as well as the mid-point - backed by a brief commentary on the underlying influences affecting the distribution.

A more detailed set of definitions of the statistical terms used in such analyses is given in Appendix C. In some data sources, the salaries for each job category are typically listed by company code, in rank order of the total cash earnings, actual base salary or salary range mid-points. Other information that might be provided is the 'compa-ratio' in each salary range for each company, matching the company average salary to the mid-point of the salary range.

Confidentiality

Although the company compensation specialist or consultant who processes the survey results will have access to the individual company codes, it is necessary for each club to decide whether all club members should have this facility or not. Knowing which code applies to which company would mean that comprehensive information about participants' salary ranges and actual salaries in payment would be available to each participant. Pay data are sensitively guarded both by individual organizations and specialist market data providers and it is now rare for newly established salary clubs to take a transparent route to publishing survey results.

Response rate

Club surveys usually expect a 100 per cent response rate. Failure to provide data normally means expulsion from the club, except in mitigating circumstances. However, it may be necessary for the club to set a minimum response rate for each job category - there is little point in a company joining a club collecting data on 60 categories if they only employ one or two of these, as they are going to lower the general response rate for particular jobs.

14.12. PUBLISHED DATA IN JOURNALS

Apart from the summaries of published market data findings that appear at various times in the business press, there are two major sources of company and public sector salary data. Both Incomes Data Services and Industrial Relations Services monitor wage and salary settlements and publish details of agreements as soon as they are made. A great deal of staff and management salary information is available because companies have shown willingness to contribute data in order to benefit from the detailed analysis of trends these organizations provide.

Both sources also comment on economic trends and analyse the effects of any government policy affecting pay. An enquiry service is part of the subscription.

Other useful sources of trend information are the government's Labour Force Survey and New Earnings Survey as well as government and union Web sites. It is also worth checking specialist information in journals such as *Taxation* to monitor the changing effects of tax on

higher earnings where this might affect management remuneration policy. Newspaper coverage of surveys and major pay awards is also worth monitoring. These days few pay and benefits specialists can avoid monitoring the Financial Times and Sunday papers with reputable business news sections. Where resources permit, it is worth setting up press coverage files for key jobs or function and techniques, both to monitor the market and to ensure that those responsible for reward management see the same articles as the executives who may ask questions relating to them and require an immediate response on policy options.

14.13. ANALYSIS OF JOB ADVERTISEMENTS

The analysis of job advertisements seems to be an attractive approach, especially taking into account the profusion of job Web sites and recruitment agency surveys in the current market. It appeals to line managers pressing for scope to pay more money to the staff. They have a habit of collecting a biased sample of advertisements and presenting them to HR as proof that their staff are seriously underpaid and are likely to leave tomorrow. They have to be persuaded that the information is unreliable for the reasons stated below and steered in the direction of better data.

The problems include racily phrased job descriptions used in the hope of attracting high-calibre applicants that are not usually precise enough to allow accurate comparisons with real jobs. Salary levels are often 'by negotiation' (often a sign of undeveloped salary policy) or they may be overstated or inflated because the company is desperate. Even where a salary scale is quoted in full this may not be the range within which the vacancy is ultimately filled. A quick check of main national newspapers /Web sites will reveal that the salaries on offer for jobs described as 'finance director' show an enormous variation. This normally rules out useful application of the data other than as an indication of trends, though it has some value if the prospective employer is named and offers supplementary - if suspect - additions to information derived from more reliable sources.

Similar problems occur in using information provided by employment agencies. Specialist agencies may, however, have a good 'feel' for salaries in the particular areas they cover. They may therefore be worth consulting where the company is already a regular and satisfied client, and when the agencies' expertise in the area is known.

14.14. OTHER MARKET INTELLIGENCE

Setting salary levels is not, as we have shown, just about the scientific application of survey statistics. Monitoring salary markets also involves gleaning facts and opinions from personal contacts. It means building up a network of reliable people with whom trends and innovations can be discussed and insights shared, and developing a 'nose' for what currently influences pay. Job adverts for salary specialists now often specify that candidates should have a good knowledge of practice in the potential employer's industry. And most effective managers responsible for pay have built up a network of contacts to ensure they know what is going on in their sector and which factors are likely to affect pay levels for all the different types of jobs involved.

Talking to informal contacts, exchanging experience and testing out ideas are valuable supplements to the more informal activities of salary clubs. It happens over the telephone and is a common activity at conferences on pay and related issues, CIPD branch meetings and similar gatherings. Over time, the information acquired by this means can considerably sharpen an individual's 'feel' for what is going on in the salary market.

The sorts of questions you can ask are:

- What level are you currently paying your junior financial analyst (those with less than two years' experience)?
- What is the increase you believe you will have to pay to your product managers this year to keep pace with the market place?
- What would you need to offer in the shape of a total remuneration package to attract a really good legal executive?
- What rates of pay are graduate members of your profession getting two years after qualification?
- At what level of salary are you having to offer a company car? What do you think the trends in salary levels are likely to be for members of your profession who have executive appointments below board level in industry?
- What is happening to the demand for production managers in your industry sector and what impact is that having on market rates?

One of the reasons why companies employ consultants to carry out salary surveys rather than do the work in-house is because good consultants will have extensive networks of contacts,

which they will use not just to get a good sample of participants but to talk to discreetly about market influences. This should enable them to explore, for instance, recruitment pressures and special inducements and incentives, and to track strategies and examples of new payment systems that might be of relevance in interpreting survey data and developing remuneration strategy

14.15. ADVANTAGES AND DISADVANTAGES OF DATA SOURCES

The advantages and disadvantages of each source are as follows:

- Published market data sources

Advantages: wide coverage, readily available, continuity allows trend analyses over time.

Disadvantages: quickly out of date, risk of imprecise job matching, not specific enough.

- Published specialist surveys

Advantages: deal with particular categories in depth, quality of job matching better than general surveys, more sensitive to measuring key trends and hot topics.

Disadvantages: job matching not entirely precise, can quickly become out of date, only deal with particular sectors.

- Club surveys

Advantages: more precise job and company matching, can provide more detail on pay structure and benefits.

- *Disadvantages:* sample size may be too small, relies on good will of participants to conduct survey. Company or 'do-it-yourself' surveys

Advantages: precise job matching, control of participants, control of analysis concepts, and acquisition of previously unavailable information.

Disadvantages: time and trouble, problem of building a large enough sample.

- Published data in journals

Advantages: readily accessible, good background data.

Disadvantages: not necessarily comprehensive, job matching imprecise.

- Analysis of job advertisements

Advantages: readily accessible, highly visible indications of market rates and trends, up to date.

Disadvantages: job matching very imprecise, salary data can be misleading.

- Other market intelligence

Advantages: good background.

Disadvantages: imprecise.

15.16. SELECTING DATA SOURCES

If time and budget permit, more than one source should be used to extend the range of data and provide back-up information.

General market data can be supplemented by specialist surveys covering particular jobs. A company-administered survey or a salary club can provide information on local market rates. If the quality of job matching is important, an individual survey can be conducted or a salary club can be formed. If a salary club already exists it can be joined, if there is room (some clubs are over-subscribed). Published surveys, which are readily accessible and are based on a large sample, can be used to back up individual or club surveys. But the information has to be relevant to the needs of the organization and particular attention should always be paid to the range of data and the quality of job matching.

Market intelligence and published data from journals and associated sources should always be used as back-up material and for information on going rates and trends. They can provide invaluable help with updating.

Although the analysis of job advertisements has its dangers, it can be used as further back-up, or to give an instant snapshot of current rates, but it is risky to rely on this source alone.

15.17. USING MARKET DATA

The translation of salary market data into competitive salary levels for individuals, or into an acceptable company salary structure, is a process based on judgement and compromise. The aim is to extract a derived market rate based on informed and effective estimates of the reliability of data. It means striking a reasonable balance between the competing merits of the different sources used. This is essentially an intuitive process. Once all the data available have been collected and presented in the most accessible manner possible (ie job by job for all the areas the structure is to cover), a proposed scale mid-point or 'spot' salary/rate has to be established for each level based on the place in the market the company wishes to occupy, ie its 'market posture'. The establishment of this mid-point will be based not only on assessment of current and updated salary data, but also on indications of movements in earnings and the cost of living that are likely to affect the life of the whole structure. For organizations needing to stay ahead of the market, this point will often be between the median and the upper quartile (of a significant population).

For others, closer alignment with the median is adequate. Once the series of mid-points in relation to the market has been established and assessed, the principles of salary structure construction set out in Chapter 16 can be applied.

It has to be recognized that market data can rapidly become out of date. To ensure that you stay ahead of the market, or at least do not lag behind it, it may be advisable to attempt to forecast how rates will increase over the next year. This can be done by extrapolating trends and analysing economic forecasts. Inevitably, there is an element of guesswork involved and the forecasts have to be treated with caution. But they at least give you some guidance on where salaries are likely to move and what you should do about it.