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Competitive Pay: The Importance of Salary Benchmarking Today

Salary benchmarking, also called compensation benchmarking, is a process by which managers match internal jobs and their descriptions to similar jobs and descriptions in a salary survey or other source of market pay data, in order to identify the market pay rate for each position.

Why Is Salary Benchmarking So Important Right Now?

In a typical year, annual salary benchmarking helps your organization to ensure that your internal pay rates remain competitive within your local pay markets. This year, salary benchmarking takes on a new level of importance. Organizations have been impacted enormously by the COVID-19 pandemic and have seen major shifts in employment and pay rates. These shifts have not been the same across every industry or even job type, however, so it’s critical to start planning your benchmarking initiatives, using the most current compensation data from trusted sources.

Salary Benchmarking Best Practices

When pricing a new position, it's critical to understand not only the key attributes of the positions you're trying to price, but also how you'll be sourcing the data necessary to conduct an accurate market assessment and salary comparison. The first step in this process is to define your internal position, documenting the key job requirements and attributes in a job description.

Once you've finalized your internal requirements, you'll want to look out to market to select a relevant data source for your business. Compensation data comes in a variety of flavors, including survey data, HR-reported aggregate market data, and even employee-reported data, and you'll want to assess which type of data is a best fit for your business - and for this position. Additionally, if you're pricing a highly specialized position or a hot job in your local market, you may want to look at supplemental data sources to more accurately assess the true price of the job.

Finally, you'll want to compare the jobs and job descriptions in your market data to your internal job description. Where are the similarities? Which benchmark jobs are a close match? Finding the best match for your job is critical to an effective salary benchmarking exercise.

As you look to begin a salary benchmarking process, here are six salary benchmarking tips to consider:

- Use data sources that cover your jobs, industry, and specific competitors for talent – data sources that cover the jobs, industries, geographic areas, and company sizes important to your organization are critical to the success of your compensation benchmarking process. If you're purchasing traditional, participant-driven compensation surveys like Salary.com's Compdata surveys, check out the survey's participant lists to see if there are companies like yours providing data.
- Don't worry about perfect job descriptions – the job descriptions in compensation surveys are not intended to be all-inclusive. Instead, they're more generic descriptions that best describe the essential functions of a job, rather than the application of that job in a specific company. To find the right job match in your compensation data sources, look for a benchmark job description whose content matches 80% or more of the content of your internal job description - not one that's a 100% perfect match.
- Match jobs based on job description content, not just the job title – similar roles, like accountants and bookkeepers, will be more clearly differentiated in their job descriptions. Roles that may be near-identical, but with different names, will also be recognized as such within job descriptions, such as Clinical Trial Manager and Clinical Research Manager. It's important therefore to rely on the job description, not the job title, to identify your closest benchmark job match.
- Match as many survey jobs as possible to your company's jobs – benchmark jobs, such as those in the Finance, HR, or Marketing job families, should be readily available in the compensation data sets

you subscribe to and can provide key pricing indicators for other, harder-to-price jobs. Through processes like slotting, you can use these benchmark job matches to inform the pricing for jobs which do not have a match - often minimizing the need to buy super-niche data sources for 1 or 2 remaining jobs in your job hierarchy.

- Focus on matching and pricing jobs, not incumbents – a person is not their job, so don't try and match the capabilities of individual people who perform a job within your organization with the high-level job descriptions in salary benchmark data sets. Instead, match based off the job description - the skills, duties, and competencies of the jobs at hand. Your salary benchmarking process should help establish a pay range for your internal position, which you can then use to inform the pay of specific employees based on their own skills, competencies, and level of performance.
- Hybridize jobs judiciously – two or more jobs can be blended to create hybrid jobs, but no more than three jobs per survey should be combined to represent your company's job. Remember that you're looking for an 80% or better match for the job, not a line-by-line description of everything that job is required to do.

Salary Benchmarking Determines Pay

How you choose to price your jobs will determine how you pay your employees. Many organizations target the market's 50th percentile or lower when pricing. This may help save money and allow room for salary negotiation while still paying new hires equitably. However, you may determine that this approach doesn't always fit your pay philosophy, recruiting and retention goals, or budget.

As you begin to price the jobs in your organization, consider grouping similar jobs together to drive additional analysis and improved decision-making around prices for all jobs in the group. Ultimately, the salary benchmarking process will feed directly into your organization's pay structures, allowing you to maintain externally competitive and internally equitable pay over time.

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Covid-19 Impact on Compensation and Benefits

We've never experienced anything like the COVID-19 pandemic, subsequent lockdowns, and resulting economic fallout. How might anyone make decisions with confidence in times like these? What does it mean to get pay right in a labor market shedding jobs by the tens of millions? We went looking for answers.

Job Loss Figures Only Tell Part of the Story

The weekly drumbeat of job loss figures that began in March tell one important part of the story of what's happening in our labor market. It's the testimony of swift and drastic actions from whole industry sectors. Yet, beyond the job losses, the rolling shocks through our economy and the labor market — and to compensation and benefits plans and programs — remain difficult to discern. We need more data.

To better understand the full range of actions that businesses are taking in light of the economic downturn caused by the COVID-19 virus outbreak — actions not contemplated in the weekly job loss headlines — Salary.com conducted the COVID-19 Compensation and Benefits Impact Survey.

Results were collected in mid-April with more than 1,400 respondents. The survey revealed that the majority of employers took some negative action, which included temporary or permanent layoffs, salary freezes or reductions, and merit increases that were eliminated, reduced or postponed:

- 66% of survey participants took at least one negative action regarding employment.
- Layoffs were the most used option - 32% of participants engaged in either a temporary or permanent layoff, or both.
- More than 27% of participants took negative action on base salary.
- 18% of participants implemented a salary freeze and another 10% reduced base pay for current employees.
- Nearly 6% of organizations increased temporary hiring, and over 2% increased permanent hiring.

Job Losses Reversed, Work Models Adapt

The survey pointed to hopeful trends about the future, further reinforced by better results in the job market. The September unemployment rate in Tennessee was 6.3%, 9.2 percentage points lower than the April 2020 rate of 15.5%.

For many, digital transformation initiatives previously planned to take years are now being completed at warp speed. Processes that fail to provide value to customers or employees are at last finding their way to the shredder. Companies are doubling down on innovative technologies that enable employees to be more productive and to make faster decisions. In their response to the crisis, organizations are showing greater agility than they perhaps thought themselves capable.

We see inspiring examples of leading from the middle, of organizations and everyday people uniting around common purposes more strongly than ever. The bright light of the human spirit continues to shine through as people find their own ways to come together to work for the common good.

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