

TRENDLINES

The Employers' Association's monthly whitepaper on essential Business/Human Resources practices

The Employers' Association (TEA) delivers reports for businesses that contain relevant and up-to-date information based on our work with hundreds of employers each month. TEA is known to produce a number of essential benchmark survey reports every year and we also compile data and observations that provide organizations practical perspectives on important business trends.

Using Compensation Survey Data

What you should know

Most organizations today are struggling to attract and retain qualified employees. Many are choosing to increase starting/entry level pay rates to attract candidates, which in turn may create compression in the upper level ranges (if the organization has a formal compensation plan). Without the aid of dependable compensation survey data to benchmark pay, an organization cannot be clear how it compares with its competitors and in ensuring internal organizational equity. Surveys assist with keeping organizations legal (having a third party collect and compile data) and allows leadership to make informed decisions when setting employee pay. Compensation generally ranges between 50%-70% of an organization's expenses (depending on the industry) and learning what other organizations are doing (by analyzing survey data) can help determine how to best allocate compensation dollars to have the most strategic impact with current employees (retention) and when seeking new employees (recruitment).

What we know

Surveys are one tool

The use of compensation survey data has remained high in 2020 and 2021. The Employers' Association has seen an increase in the percent of TEA Members participating in compensation surveys as well as those purchasing the survey data. Surveys should be used to benchmark your current pay rates, compare different sources of data to ensure validity and to help develop a compensation philosophy that is communicated to employees. Surveys should not be the only resource used to set compensation and they must be put into context to identify trends, "blips" and whether rate changes are short-term or more long lasting. While specific information from one or two competitors may be interesting, a survey that gathers and compiles data from a variety of organizations will be much more useful (and accurate) when setting your policy and determining what the market is really paying.

Administering a survey is a science, using a survey is an art

There are certain guidelines that employers should look for in well-run surveys (some of these help avoid antitrust and other legal issues):

- The survey must be managed by an outside third party.
- Data collected and reported must be at least 3 months old.

- The number of participants must be included and significant to publish results for any single job.
- Confidentiality must be assured by making sure the data for any job is sufficiently aggregated that no one participant's data can be identified NOR that it comprises more than 25% of all the data for that job.
- The results should provide several compensation breakouts such as size, industry-type, geographic area and sometimes sales volume.

TEA fastidiously adheres to these guidelines and maintains the confidentiality of any data reported in our surveys. Confidentiality and validity are the most important aspects for participants in a survey – organizations must be able to trust the integrity and policies of the host.

Considerations when choosing surveys

- Industry-specific associations often publish surveys but the data tends to be National in scope and submitted by larger organizations so it can be a bit inflated (or depressed) from a specific market. Although it might include incumbents in the trade, it may not indicate the level of experience or scope of responsibility.
- Surveys provide which organizations contributed data. Look to see who participated in the survey to see if they are appropriate matches by industry/size/geography. Sometimes the “cuts” do not match the organization's industry/size/geography so the aggregate data (“all companies”) may be more relevant.
- The effective date for the data should be printed on the survey. This information tells you whether or not you will need to “age” the data, (aging survey data allows you to calculate the impact of time on the data as long as you know what kind of increases employers have been providing since the data was collected).
- Do not use job titles to match the job – read the job description linked to the data. The same job title can be used for many different job descriptions AND the same description is often used for different job titles.

Surveys are an investment – of time AND money

Salary.com, an internet-based survey resource, reports that more than 80% of business and HR managers participate in or purchase surveys each year. Smaller companies (less than 500 employees) spend a few thousand dollars annually on surveys while larger companies can easily spend more than \$12,000 per year to secure valid and credible data. While a large number, the cost is a small fraction of an organization's total payroll and, if used properly to set rates and calculate pay increases, they can save thousands of dollars each year by providing targeted (rather than across the board) increases.

What it means

Surveys are an excellent means of communicating with employees and helping support the organization's compensation philosophy. Often, especially in smaller companies, employees perform duties from several different jobs. If an employee is doing both accounting and HR work, for example, and the accounting duties take up 40% of their time and HR duties take up 60% of their time, compensation should include 40% of the appropriate accountant pay rate ($\$42,000 \times 40\% = \$16,800$) and 60% of the HR pay rate ($\$49,000 \times 60\% = \$29,400$). The cumulative total for the pay rate would equal \$46,200.

Compensation surveys usually provide both the average and the weighted average. Straight average is based on the total number of companies responding to a job and the weighted average is based on the total number

of incumbents/employees reported for the job. The difference can be seen below in the three scenarios. Note that the straight average (Avg Pay) remains the same in all three scenarios. What changes is the weighted average (Wtd Avg).

No Empl	Avg Pay	Ext Avg	No Empl	Avg Pay	Ext Avg	No Empl	Avg Pay	Ext Avg
26	\$14.40	\$374.40	75	\$14.40	\$1,080.00	4	\$14.40	\$57.60
7	\$14.65	\$102.55	10	\$14.65	\$146.50	20	\$14.65	\$293.00
59	\$15.00	\$885.00	25	\$15.00	\$375.00	6	\$15.00	\$90.00
32	\$15.25	\$488.00	4	\$15.25	\$61.00	35	\$15.25	\$533.75
12	\$15.85	\$190.20	17	\$15.85	\$269.45	64	\$15.85	\$1,014.40
136	\$75.15	\$2,040.15	131	\$75.15	\$1,931.95	129	\$75.15	\$1,988.75
Avg/Wtd Avg	\$15.03	\$15.00	Avg/Wtd Avg	\$15.03	\$14.75	Avg/Wtd Avg	\$15.03	\$15.42

- In the third example, there are more employees in the highest rate so this is pulling that average up. This could be several employees at one larger company or it could be a few employees at several higher paying smaller companies.
- In the middle example, the lowest rate has the most employees so that is pulling the average rate down.
- Although the average is useful, the weighted average displays the data in another way that many organizations find useful.
- A final piece of data (not shown above) is the median/mid-point – the center rate between low and high. This is another data point that many companies use when comparing data.

What you can do

Those administering compensation should become comfortable with the variety of ways survey data is displayed to fully benefit from the key data points. Surveys allow for the measurement and planning of internal equity and external competitiveness and it is important to understand, interpret and apply survey data in conjunction with an organization-wide compensation system (built on job responsibilities and expectations using competitive survey data rather than job titles).

Understanding reliable survey data can help if an employee searches online to find what they “should be paid” and brings that information forward in an attempt to get a pay increase (this often occurs when employees are looking for jobs and pay ranges are displayed near the postings). To determine the validity of the pay data there are a few basic questions that can be asked:

- Who published the survey?
- Who participated in the survey?
- How current is the data?
- How well does the surveyed job description match their job description?

In addition, the employee should understand whether the online data fits into the compensation philosophy and the established ranges of the current employer.

Gaining comfort understanding and applying compensation survey data can provide a key advantage for the organization in attracting and retaining the best employees.