

SELECTING AND BENEFITTING FROM SALARY SURVEYS

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Introduction

A key aspect of any Human Resource Management strategic plan is the development of a remuneration policy and structures which enable an employer to attract, retain and motivate people with the skills necessary to ensure that organisational goals are met. To do this successfully requires something of a balancing act. Internal relativities need to be in balance with external market forces, ensuring that the remuneration offered for specific positions is competitive, without being so high that it creates internal tension between people in different positions. Too much emphasis on internal relativities, at the expense of external values, means you may not be competitive externally, and will be unable to attract the right skills. Conversely, too much emphasis on external rates ultimately produces distortions between jobs in different parts of the organisation as you react to market pressures. Ultimately, either scenario reduces the effectiveness of your remuneration policies. Salary surveys are one means of ensuring that you remain competitive externally.

The purpose of Salary Surveys

Many executives, and indeed, many employees, believe that it is not only possible, but relatively simple, to establish the "right" rate, for any given job, in any industry, in any location, for any age or experience level, preferably down to the last dollar! The expectation is that remuneration specialists, and the surveys they provide, can wave a magic wand and come up with the only right answer.

This rather overlooks the complexity of remuneration issues. It is rare that two companies, even within the same industry and location, are managed in identical ways. Different corporate values, perceptions of the contribution of each job to the performance of the organisation, and the experience and performance of the individuals holding the jobs all impact on the remuneration paid to the people holding apparently similar positions. Ultimately those differences are reflected in the market.

No survey is able, despite the claims of some surveyors, to provide the single "correct" salary for any position, or range of positions. The purpose of surveys, both commercial and

privately conducted, is to provide accurate and representative data for the positions or levels of responsibility covered. The aim is to show as clearly as possible the current operating or going range for the positions, taking into account such variables as company size, industry type, location, and particular market pressures which affect remuneration paid. Quality surveys will go further, and identify the underlying factors which affect the distribution of salaries within those ranges, and, just as importantly, the long term trends which influence remuneration patterns from year to year.

A Framework for developing Remuneration Policy

The objective of a sound remuneration policy is to attract, retain and motivate employees with the skills necessary to ensure that organisational objectives are met. As seen in Figure 1, the achievement of this requires the balancing of four seemingly conflicting forces:

- Organisational values, or corporate culture
- Internal relativities, established by job sizing, or job evaluation
- External market rates, established from salary surveys and other "market intelligence"
- Individual needs and aspirations, through performance management, and training and development programmes



Striking the right balance is challenging, but rewarding, and will support the achievement of organisational objectives through enhanced ability to attract and retain the right staff.



What types of surveys are available?

Having made the decision that you need market data to assist you with the development of your new remuneration policy, what is available to you? Essentially you have two broad options, within which there may be additional choices:

Informal or Club Surveys

If you have the time, and are a committed "do it yourselfer" you may choose to establish your own "club" survey, by exchanging data with other interested parties within the same industry or location. You may even find that a suitable club survey is already in operation, perhaps run by a member of the industry, or an industry representative, and your participation would be welcomed.

Such an option is attractive. For most of the members the costs and time commitments are minimal, requiring only the supply of data, often by telephone, on a regular basis, in return for a report providing a summary of patterns and trends. The costs for the originator however can be considerable, unless some sharing of costs can be agreed. Add this to the additional drawbacks of small sample sizes and lack of specialist survey staff to carry out the analysis, both of which contribute to superficial analysis only, and it is small wonder that many club surveys either fold after a time, or are taken over by a commercial surveyor, with the necessary skills and structure to provide the service cost effectively. It is these commercial surveys which provide the most likely solutions.

Commercial Surveys

The major commercial surveys in New Zealand are all run by either management consulting firms, particularly those with executive recruitment functions, or, in recent times, by regional offices of the Employers Federation. Even within these commercial surveys however there is a divergence of opinion over what is the best surveying method. Arguments abound over the relative merits of job description based surveys (such as those conducted by MHR Global (previously provided as the "CubikSurvey"), and Moyle Consulting), or job evaluation based surveys (Hay Management Consultants, and Mercers).

Far be it from me to venture an opinion on this here; at the end of the day it is the members who will decide, by supporting the type of survey which best meets their needs.

It is worth noting however, that despite the claims of those in the job evaluation camp, two of the most widely used surveys in NZ, by a considerable margin, are the *MHR RemData Service* and the *Moyle Consulting Survey*; both are job description based.

To be fair to readers however, and to my colleagues within the surveying industry, both approaches have their merits. The final choice will be made by the users, and will doubtless vary depending on circumstances. My aim is only to record some of the advantages and disadvantages of the two approaches.

Job Description based Surveys

These surveys use generic job descriptions to identify the positions for which members supply data. The descriptions may be quite simple, although the better surveys not only describe the job, they also provide modifiers which identify factors which suggest that an alternative position may be a more appropriate match.

Advantages:

- Simplicity of job matching, without the need for job sizing; the addition of modifiers makes this even easier.
- Flexibility; job description based surveys can be used with any job evaluation (JE) system

Disadvantages

- Poor descriptions of positions can lead to inaccurate matching

Job Evaluation based Surveys

These are based on proprietary job evaluation systems, with the jobs surveyed being not only described, but also sized using the supplier's JE system (although some suppliers do provide a "conversion" service, converting alternative systems to their own points values).

Advantages:

- The dual use of descriptions and job sizing provides a common frame of reference for all positions
- Potentially provide very accurate job matching

Disadvantages

- Poor quality control on the job sizing process can produce distortions in the data



- Can appear unnecessarily complex for what should be a simple process
- The need for a common evaluation system for survey purposes compromises the ability of the supplier to tailor an evaluation system to reflect client values; any substantive change will reduce the validity of survey results
- Expense; the need to invest in a common JE system may incur expense which cannot be justified, and commit you to ongoing expenditure to maintain the system

A fourth survey type, the Specialist Industry Survey, may share characteristics with any of the previous three, and may well have grown originally from a club survey, conducted by an industry group. Typically these surveys provide data on specialist positions within an industry, although in some cases, where there is a perception of the industry paying significantly different rates to the rest of the market, they may include more general positions.

Many of the main providers of general surveys provide at least one, and often two or more, specialist surveys. Interestingly, there is little overlap between these, as the vendors seek to establish their own market niches, and it is not unknown for surveyors to refer potential clients, reluctantly, on to the competitor with the required specialist survey.

In addition, several other management consultancies involved in executive recruitment provide specialist industry surveys in sectors in which they have an interest.

Selecting the Right Survey

Using surveys is about judgement. No survey will make decisions for you, and therefore you need to be careful to select the right survey for your organisation's needs. In many cases no single survey meets all these needs, and a number of organisations belong to two or more surveys. I have even heard of one employer who subscribes to more than ten, including several club surveys!

I do not have time in this paper to address the multiplicity of issues which may go into that decision. Instead I have provided at Appendix A a simple check list which may help you. Some of the points are worthy of more detailed examination however, and set out below are some things

to look for, and some to avoid, along with my views on these.

Things to look for:

1. Quartile analysis.

Quartile analysis is a statistical technique for showing the range of data within a sample; in simple terms, when the data is arranged from lowest to highest, the Lower Quartile is the point at which exactly 25 percent of records are paid less, and 75 percent are paid more. The Upper Quartile reverses these figures, and the Median is the point where exactly half the records are lower, and half are higher.

Quartile analysis provides a better indication of the range of salaries provided for a position than does showing mere averages, as a single "rogue" record, significantly higher or lower than the rest of the sample, can have a marked impact on the average, particularly where the total sample size is low.

Ideally the analysis should be given in tables showing the quartiles and averages for base salary, total remuneration and total cost. Don't be fooled though. The production of quartile analysis on its own is no guarantee of survey accuracy; look also for an indication of the minimum sample size required before quartiles are calculated. Anything less than ten is insufficient and is prone to producing distortions, particularly where a very few organisations provide the data. Avoid any survey which produces quartile analysis of samples less than ten.

2. Survey lead time

Salary surveys, by nature, have a limited shelf life. The moment they are produced they are out of date. It is not possible to overcome this completely, as data must be collected and analysed, but surveys which aim to have as short a time as possible between data collection and the production of results are likely to be of more use than those with long lead times.

It should be possible for experienced surveyors to produce results within 3 to 6 weeks of data collection. As an example, the results of our *MHR RemData Service*, one of the larger surveys, is available to clients within three weeks of the close off of data collection, and more detailed commentary is available less than six weeks after close off.



Members of the smaller club surveys should expect even shorter waits.

3. Analysis of trends

Remuneration decisions are with you for some time, and you need therefore to know what is going on around you in order to make the right decisions. It is perhaps too much to expect club surveys to provide much in the way of analysis of remuneration trends (their sample sizes and client bases are unlikely to lend themselves to this) however you should expect to get some comment on changes in remuneration practice from the main suppliers. After all, it's your data they are playing around with, and the least they can do is provide some added value.

In truth, many of the main surveyors do provide commentary on trends in remuneration practice, and a number also seek supplementary information from clients on such diverse remuneration issues, as forecast movement, changes to policy, and motor vehicle replacement policies.

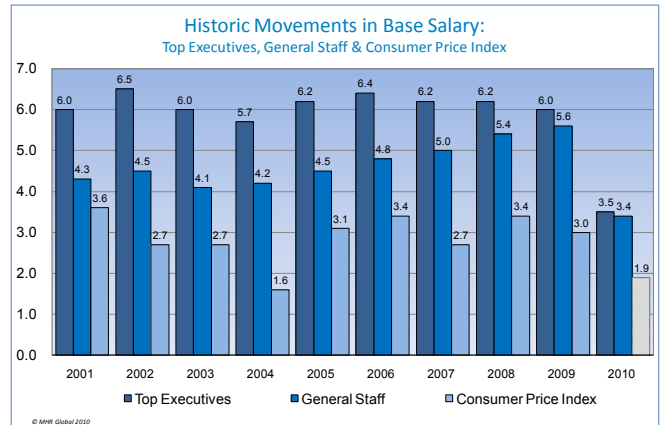
Surveys which provide these added services are a better all round option than those which merely regurgitate your own data. By all means use a specialist survey to obtain data for your industry or location, but do not expect the same survey to provide accurate guidance on what is happening in the market generally.

4. Survey Presentation

Many surveys let themselves down with complex report layouts, frightening off many potential members by the use of inappropriate graphics, multitudes of complex tables, and commentary full of technical jargon. The impression gained is that a higher degree in "Remuneration Technology" is needed to understand the import of these masterpieces. Surveyors would do well to recognise that their clients, in the main, are Human Resources practitioners, Finance Officers, and CEO's, who generally do not have detailed knowledge of either remuneration or statistics, and have no desire to develop either.

The use of appropriate graphics, either instead of, or in support of, data tables, can add significantly to the reader's understanding of remuneration issues, as shown in Figure 2 below, which shows the downward trend in salary movements over recent years.

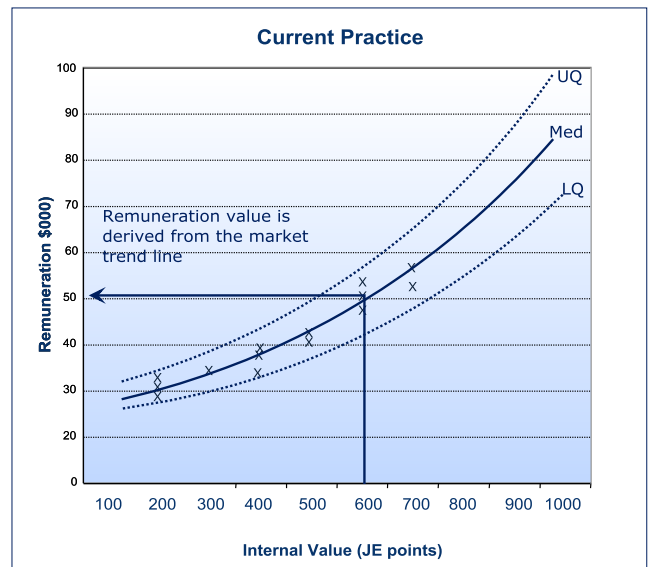
Inappropriate graphics, with minimal explanation, may look good to the uninitiated, but frequently serve only to confuse. Look for a survey which keeps the layout simple and clear, uses simple graphics in support of text, and gives clear explanations of any technical terms used.



Things to be wary of

1. Salary Trend Lines

The production of a salary trend line illustrating the relationship between an organisation's internal values, as measured by job evaluation, and the external market, is a proven technique for the development of remuneration policy. Trend lines are developed by plotting remuneration for individual positions against the points value set using job evaluation techniques. A "line of best fit" between the data points is then created using regression analysis, and from the resulting line remuneration values can be identified for any points value along the X-scale. An illustration is given in Figure 3 below.



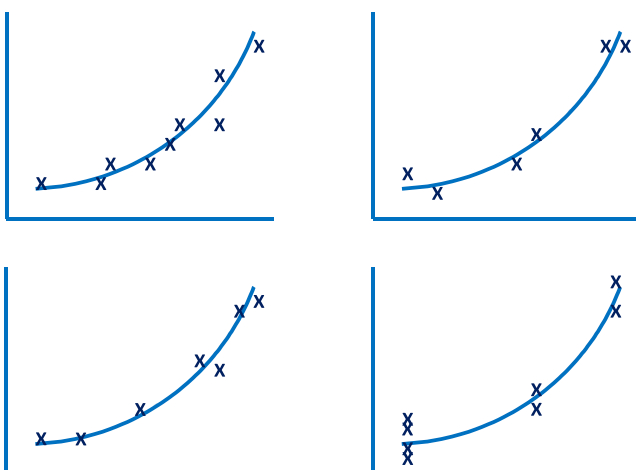


There is nothing wrong with the technique, and what such charts show, it's what they don't show that causes a problem.

To be useful the trend line should be based on a representative number (at least 20) of benchmark positions which are selected from throughout the organisation, and provide a network of reference points to which other positions can be compared. In addition, as many of these benchmark positions as possible should also be able to be compared directly with positions outside the organisation to provide market references.

Developed in this way salary trend lines are an essential, and simple way in which to apply survey results. They ensure that remuneration structures recognise both internal and external relativities, and that external market forces do not override internal relativities, thereby creating tension. Trend lines shown as a standard part of a general survey report however do not always meet these criteria, and should be treated with some caution.

Surveys using trend lines as a standard report rarely show the data points on which their line has been based. It is possible to produce the same trend from four markedly different sets of data; if the data points are not shown it is all too easy to assume that the distribution of records is evenly spread along the line, and that the total sample is high enough to support the analysis. As can be seen in figure 4, neither need necessarily be the case!



Just as importantly, trends developed in this way are not based on a careful selection of your benchmark positions, and may well contain records of positions in which you have no interest. As the trend is calculated from all records in a given sample, remuneration decisions based on it will be influenced by payments made to these irrelevant

positions, and you may find yourself effectively paying for something you don't want, or need. For example, if your organisation does not employ any research scientists, but others within your industry do, why should remuneration for your positions be affected by the premiums paid to these scientists?

Insist on trend lines which show the data points, and are based only on the positions in which you have a direct interest.

Use of Survey Data

The previous section illustrates one use of survey data, combining market data with job evaluation results to derive remuneration for individual positions which recognises both internal and external relativities. Employers do not always have the luxury of having formal internal relativities set however, and from time to time need to assess remuneration for individual positions. A different approach is needed in these cases.

A very simple approach is to extract remuneration data from your survey, based on factors such as organisation size, location and industry, and use this to determine indicative ranges, as illustrated in the table below. The figures have been extracted from the MHR March 2010 RemData analysis:

Role:	Human Resources Manager	
Market Stance:	Median	
Market segments:		Total Remuneration
Location	Wellington	\$112 914
Industry	Tourism	103 432
Employees	151 – 300	102 841
Turnover	\$20m - \$50m	98 106
	Average:	\$104 323

Based on this data, and simple averaging of the four categories, a midpoint rate of **\$104 300** for total remuneration would be appropriate. To give added flexibility, a range of 10.0 percent either side of this figures could be set, giving a total remuneration range of **\$93 900** to **\$114 700**. This would be fairly typical of positions at this level within this industry.



This may appear rather simplistic, but it really can be that easy. To refine the result further however it is possible to apply weightings to some categories to give added emphasis to one or more categories. For example, in a Human Resources position it may be appropriate to give added weighting to the "Number of Staff Category", and thereby alter the midpoints, and their ranges.

The survey should also give you sufficient information on market practice for the provision of benefits to individual positions to enable you to draw up a package for the position.

Our March 2010 survey shows us that the most common benefits in this position are:

Superannuation/KiwiSaver	\$4 900
Bonus payment	8 500
Medical insurance	1 300

A realistic package, based on the midpoints in the above example, would therefore be:

Base Salary:	\$89 600
Bonus	8 500
Superannuation	4 900
Medical	1 300
	<hr/>
	\$104 300

Unfortunately for the Personnel Manager, a company car is not a common feature of benefits packages at this level!

Conclusion

Using a salary survey is all about judgement; exercising the right judgement to determine whether the results you are getting are appropriate for your organisation. All commercial surveys are participative, and reliant on survey members choosing to submit data. Because of this it is not possible for any survey to show the single correct rate for any job. With careful selection of your survey however, and judicious use of the results you get from it, you will find that management of your organisation's remuneration policies becomes a little easier.

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