

3 questions about benchmarking salaries



Why use benchmark jobs?

There are 4 key reasons to use benchmark jobs in compensation planning:

- Commonly found and defined, they allow pay comparisons within the organization or to comparable jobs outside the organization.
- Specific and realistic job specifications relate to what, why and how work is done for a specific job.
- Benchmark jobs help create career ladders, supporting the company's motivation and retention of valuable talent.
- They provide samples of various levels in most job functions, so employers have an overall picture of their organization and pay levels.

Remember: Positions rarely match exactly; employers must also decide whether a premium or discount is appropriate for the particular job position based on survey data, thereby ensuring competitive pay.

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What are critical market pricing errors to avoid?

Companies should avoid the following:

- **Failing to identify or develop a thorough market pricing strategy.** Companies struggle to achieve their goals and reach market-pricing targets when they don't have pay philosophies or a thorough understanding of how they define compensation.
- **Using incorrect salary data sources.** Human resources should use data drawn from similar businesses (same industry and size) when market-pricing jobs, and should consider prioritizing data from labor markets in which companies are competing for employees. These types of comparators should be defined as part of the company's overall compensation strategy.
- **Matching salary data to job titles rather than to job duties.** Employees with the same job duties may have different titles based on the company, industry or market. Employers must use data that matches job content (rather than title) and provides job descriptions in order to avoid over- or underpaying for labor.
- **Focusing on the incumbent and not the job position.** Because many positions often have only a single incumbent, it is sometimes hard to differentiate that market pricing focuses on the position requirements, not the incumbent's skills and abilities.
- **Making methodological errors.** Using skewed survey averages, unreliable regression analyses, or failing to age the data appropriately can lead to an inaccurate and potentially costly market estimate.
- **Using "stale" compensation data.** Market rates change rapidly, and statistical correlations generally become invalid for data older than two years.





What factors influence a company's compensation strategy?

Both internal and external factors have an impact on compensation strategy.

Internal factors include the following:

- Business strategies that may emphasize some job functions over others (i.e., sales positions).
- A current pay program that determines levels and components of the pay package.
- Incumbent expectations and perceptions that affect their productivity.
- Organizational ownership, structure and financial constraints that limit pay budgets.

HR professionals should also consider the following external factors:

- Ability to source market data those are comparable to your company (same industry and size).
- Market demand for a certain position; a high-demand position with a small talent pool may require a more competitive compensation package.