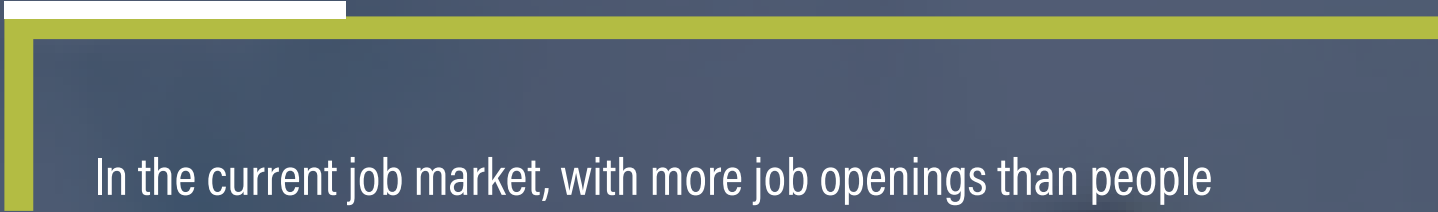


THE “WHY” & “HOW” OF COMPENSATION BENCHMARKING





In the current job market, with more job openings than people willing to work, employers are struggling to hire and keep skilled employees. One way to make your business stand out from the sea of companies trying to hire is to offer competitive pay. **But how do you know what is competitive?**

In this ebook, we'll discuss what compensation benchmarking is, how it benefits your business, and how to create a benchmarking report to help you attract top talent and eliminate turnover.

TABLE OF CONTENTS

01 WHY COMPENSATION BENCHMARKING IS BENEFICIAL

03 HOW TO CREATE AN EFFECTIVE COMPENSATION BENCHMARK

05 WHAT'S NEXT?

WHY COMPENSATION BENCHMARKING IS BENEFICIAL

With today's hot job market, employers are facing competition for talent like never before, making compensation benchmarking crucial to gain insight into current and future compensation trends. By performing an annual compensation benchmark, you can provide your employees with competitive market rates, recruit qualified professionals, promote employee loyalty and increase productivity. All of these factors can in turn improve the overall profitability of your business.

So, you may be wondering, what exactly is compensation benchmarking? Compensation benchmarking is the process of matching your current job roles with market pay data to determine a competitive rate for each of your positions. In other words, this process analyzes the main components of each role and compares them to similar jobs in other businesses to ensure that you are paying your employees fairly. This can benefit your organization in a variety of ways, such as:

01

ENABLING PAY EQUITY

By performing regular compensation benchmarking, you can proactively address any compensation issues and ensure that you are creating equal opportunities for your employees while limiting pay compression. What is pay compression? It can happen in any organization between managers and direct report or new and tenured employees. For example, a new employee's salary may be close to what a tenured employee's salary is despite their differences in experience and skills. This can lead to high turnover if your more senior staff feel undervalued and they decide to jump ship.

ATTRACTING THE BEST APPLICANTS

Use compensation benchmarking to help you decide the best salary strategies for various positions. By advertising a competitive compensation package, applicants may be more interested in pursuing a position at your company.

02

IMPROVING OVERALL JOB SATISFACTION

You can improve morale and job satisfaction with regular compensation benchmarking to ensure salaries remain equitable and updated with current market trends.

03

ENSURING A COMPETITIVE ADVANTAGE

Top talent will always have career options and opportunities. You want to ensure that what you offer your employees allows you to stay as a top contender in the job market. If your employees feel their pay and benefits cannot be matched elsewhere, they will be more likely to stay at your organization.

04

REDUCING COSTS AND IMPROVING BUDGETING

Hiring new employees can be costly if you underpay or overpay them. By benchmarking, you can determine a competitive rate to pay new employees to reduce potential turnover rates and help you form a budget baseline.

05

HOW TO CREATE AN EFFECTIVE COMPENSATION BENCHMARK

Consider these points when performing a compensation benchmark.

01

ESTABLISH A PLAN

It is important to set an objective for your benchmark – are you trying to assess employee satisfaction, or make decisions on promotions or appraisals? This plan should also include a general timeline, budget, and your business's compensation philosophy. This entails determining how competitive you want your business to be within your industry's job market. For example, are you going to lead the market in direct compensation or offer standard pay with great benefits? We have noticed in the past few years that small to mid-size businesses have been offering higher direct compensation to compete with their competitors.

02

CLARIFY JOB DESCRIPTION REQUIREMENTS

To accurately benchmark your roles, it is important to have up-to-date job descriptions. Often, organizations may use different job titles for similar roles making it more difficult to compare your positions with jobs in other businesses. Therefore, it is important for you to rely on the job description, not the title, to identify their closest job match. Ideally, you should take note of the individuals' certifications, education, experience, and unique skills to accurately benchmark their role. Providing up-to-date job descriptions can also ensure your business is compliant with the Americans with Disabilities Act (ADA).



03

COMPARE TO COMPETITION

How do you stack up against your competitors? By comparing your market pay data to similar employers, you might find that the salary you are offering is above or below what would be considered a competitive rate. For example, when you look at the labor market, you may find that you are paying your employees in the 50th percentile, while others are paying employees closer to the 70th. This comparison allows you to adjust your compensation accordingly while also putting you in the lead in the job market.

04

LOCATION, LOCATION, LOCATION

Are you competing for talent locally, or is there a national market for some of the skill sets you are seeking? With many companies operating remotely, you can expand your pool of applicants nationwide. While this can be beneficial when searching for new talent, it is important to consider that competitive pay for someone in one state will likely be different for someone in another.

05

CONSIDER ALL COMPENSATION METHODS

As you are calculating your employees' salaries to compare to competitors, consider the components of your compensation strategy. These may include benefits, bonuses, PTO, and other monetary or non-monetary perks. A non-monetary perk, for example, could be an increase in flexibility programs such as remote working or unlimited PTO.

WHAT'S NEXT?

Once you have considered the “Why” and “How” of compensation benchmarking, it is time to provide your business’s compensation data to your broker or your benchmarking vendor to generate a report. If you do not partner with any vendors, PSA is happy to create a custom report for one of your job roles. Check out this sample compensation benchmarking report (psafinancial.com/compensation-benchmark-sample) to see what we can create for you. We know how crucial using compensation benchmarking can be to retain top talent and promote employee loyalty, which has a direct impact on your bottom line.

For more information about compensation benchmarking or for other HR assistance, contact Lynn Argenbright at largenbright@psafinancial.com.



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