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Market Rate Analysis

Key concepts and terms

- Arithmetic mean or average
- Capsule job description
- Inter-quartile range
- Lower quartile
- Market rate survey
- Median
- Benchmark jobs
- Derived market rate
- Job matching
- Market rate
- Market stance
- Upper quartile

Learning outcomes

On completing this chapter you should be able to define these key concepts. You should also know about:

- The aims of market rate analysis
- Factors affecting the validity and reliability of market rate data
- Uses of benchmark jobs
- Interpreting and presenting market rate data
- The concept of a market rate
- Job matching
- Sources of data
- Using survey data

Introduction

Market rate analysis is conducted through surveys that produce data on the levels of pay and benefits for similar jobs in comparable organizations. It is the basis either for extreme market pricing, as defined in Chapter 47, or for maintaining competitive rates of pay and benefits and deciding on pay ranges in a grade and pay structure.

> *Aims of market analysis*
>
> - Obtain relevant, accurate and representative data on market rates.
> - Compare like with like, in terms of data, regional and organizational variations and, importantly, type and size of job or role.
> - Obtain information that is as up to date as possible.
> - Interpret data in a way that clearly indicates the action required.

Decisions on levels of pay following market rate analysis will be guided by the pay policy of the organization or its 'market stance' – ie how it wants its pay levels to relate to market levels.

Effective market rate analysis depends on understanding the concept of a market rate and the factors affecting the validity and reliability of market rate data, as considered in the first two parts of this chapter. The rest of the chapter deals with selecting the benchmark jobs used for comparison, the sources of market rate data and how they should be interpreted, presented and used.

The concept of a market rate

People often refer to the 'market rate' but it is a much more elusive concept than it seems. There is no such thing as a definitive market rate for any job, even when comparing identically sized organizations in the same industry and location. There are local markets and there are national markets, and none of them is perfect in the economist's sense. Different market information sources for the same types of jobs produce different results because of variations in the sample, the difficulty of obtaining precise matches between jobs in the organization and jobs elsewhere (job matching), and timing (the dates on which the data are collected may differ).

This means that market rate analysis is most unlikely to produce information on the rate for the job. The possibly incomplete data from a number of sources, some more reliable than others, has to be interpreted to indicate what the organization should do about it. Data may be available for some jobs but not for others, which are unique to the organization.

Factors determining the validity and reliability of market rate data

1. Job matching – the extent to which the external jobs with which the internal jobs are being compared are similar, ie like is being compared with like.

2. Sample frame – the degree to which the sample of organizations from which the data have been collected is fully representative of the organizations with which comparisons need to be made in such terms as sector, technology or type of business, size and location.

3. Timing – the extent to which the information is up to date or can be updated reliably. By their very nature, published surveys, upon which many people rely, can soon become out of date. This can happen the moment they are produced – pay levels may have changed and people may have moved in or out since the date of the survey. While it is not possible to overcome this completely, as data must be gathered and analysed, surveys that aim to have as short a time as possible between data collection and the publication of results are likely to be of more use than those with longer lead times. Estimates can be made of likely movements since the survey took place, but they are mainly guesswork.

Job matching

Inadequate job matching is a major cause of inaccuracies in the data collected by market analysis. So far as possible the aim is to match the jobs within the organization and those outside (the comparators) so that like is being compared with like. It is essential to avoid crude and misleading comparisons based on job titles alone or vague descriptions of job content. It is first necessary to ensure that a broad match is achieved between the organization and the types of organizations used as comparators in terms of sector, industry classification, size and location.

The next step is to match jobs within the organizations concerned. The various methods, in ascending order of accuracy, are:

1. Job title: this can be misleading. Job titles by themselves give no indication of the range of duties or the level of responsibility and are sometimes used to convey additional status to employees or their customers unrelated to the real level of work done.

2. Brief description of duties and level or zone of responsibility: national surveys frequently restrict their job-matching definitions to a two- or three-line description of duties and an indication of levels of responsibility in rank order. The latter is often limited to a one-line

definition for each level or zone in a hierarchy. This approach provides some guidance on job matching, which reduces major discrepancies, but it still leaves considerable scope for discretion and can therefore provide only generalized comparisons.

3. Capsule job descriptions: club (see below) or specialist 'bespoke' surveys frequently use capsule job descriptions that define main responsibilities and duties in about 100 to 200 words. To increase the refinement of comparisons, modifying statements may be made indicating where responsibilities are higher or lower than the norm. Capsule job descriptions considerably increase the accuracy of comparisons as long as they are based on a careful analysis of actual jobs and include modifying statements. But they are not always capable of dealing with specialist jobs and the accuracy of comparisons in relation to levels of responsibility may be limited, even when modifiers are used.

4. Full role profiles, including a factor analysis of the levels of responsibility involved, may be used in special surveys when direct comparisons are made between jobs in different organizations. They can be more accurate on a one-for-one basis but their use is limited because of the time and labour involved in preparing them. A further limitation is that comparator organizations may not have available, or be prepared to make available, their own full role profiles for comparison.

5. Job evaluation: can be used in support of a capsule job description or a role profile to provide a more accurate measure of relative job size. A common method of evaluation is necessary. An increasing number of international and UK consultancies now claim to be able to make this link, either through a point-factor scheme or a matching approach, even though they do not necessarily restrict survey participation only to those organizations that are prepared to conduct a full evaluation process. This approach will further increase the accuracy of comparisons but the degree of accuracy will depend on the quality of the job evaluation process.

Use of benchmark jobs

A market rate survey should aim to collect data on a representative sample of benchmark jobs that will be used to provide guidance on the design of a pay structure (see Chapter 49) or as a basis for market pricing. The jobs selected should be ones for which it is likely that market data will be available. There are usually some jobs that are unique to the organization and for which comparisons cannot be made. When conducting a market pricing exercise it is necessary to make a judgement on the positioning of these jobs in the structure on the basis of comparisons with the benchmark jobs. A point-factor evaluation scheme, if available, helps to make these comparisons more accurate.

Sources of market data

There is a wide variety of sources of varying quality. They include published surveys, special surveys conducted by the organization, 'pay clubs' (groups of organizations that exchange information on pay and benefits) and advertisements.

Because it is unlikely that precise job matching, a perfect sample and coincidence of timing will be achieved, it is best to obtain data from more than one source. Ultimately, a judgement has to be made about market levels of pay and this will be helped if a range of information is available that enables a view to be taken on what should be regarded as 'the market rate' for internal use. This is more convincing if it has been derived from a number of sources. For example, published market data can be supplemented by specialist surveys covering particular jobs. Should the quality of job matching be important, an individual survey can be conducted or a salary club can be joined, if there is room. If a number of sources is used, the objective justification for any market supplement or premium (an addition to the normal rate for the job to reflect the market value of a job) that might create unequal pay must be made.

In choosing data sources it is important to take account of how easily replicable the analysis will be in future years. Trends can only be identified if a consistent set of sources is used, and if those sources are reasonably stable.

Published surveys

Published surveys are readily accessible and are usually based on a large sample. If the information can be obtained online, so much the better. But they have to be relevant to the needs of the organization and particular attention should always be paid to the range of data and the quality of job matching. Published surveys are of widely varying content, presentation and quality and are sometimes expensive. They can be national, local, sector, industrial or occupational.

When selecting a published survey the following guidelines should be used:

- Does it cover relevant jobs in similar organizations?
- Does it provide the information on the pay and benefits required?
- Are there enough participants to provide acceptable comparisons?
- So far as can be judged, is the survey conducted properly in terms of its sampling techniques and the quality of job matching?
- Is the survey reasonably up to date?
- Are the results well presented?
- Does it provide value for money?

As a starting point to identifying a relevant survey, look at the regular reviews included in publications from Incomes Data Services (IDS) and Industrial Relations Services (IRS). Pay analyst IDS also publishes a directory that brings together information on virtually every available survey of salaries and benefits produced in the UK, providing an unmatched guide to data sources. It currently lists some 290 surveys of salaries and benefits from 76 UK survey producers, covering national, local, benefit and international surveys, and gives details of employee groups and jobs covered by each survey, sample size, date of the survey data and the length and price of the report. Subscribers to the directory can also access it online and search for data by job title, type of benefit, sector, UK region or overseas region. Contact www.salarysurveys.info.

Consultants' databases

Many consultancies concerned with reward management have databases of market rates produced by their own surveys and contacts, and are often linked to their proprietary job evaluation scheme.

Special surveys

Special surveys can be 'do it yourself' affairs or they can be conducted for you by management consultants. The latter method costs more but it saves a lot of time and trouble, and some organizations may be more willing to respond to an enquiry from a reputable consultant.

Conducting a special survey

1. Decide what information is wanted.

2. Identify the 'benchmark' jobs for which comparative pay data are required. This could have been done as part of a job evaluation exercise, as described in Chapter 47.

3. Produce capsule job descriptions for those jobs.

4. Identify the organizations that are likely to have similar jobs.

5. Contact those organizations and invite them to participate. It is usual to say that the survey findings will be distributed to participants (this is the quid pro quo) and that individual organizations will not be identified.

6. Provide participants with a form to complete together with guidance notes and capsule job descriptions. This includes provision for participants to indicate by a + or – whether the size or scope of the job is larger or smaller than the capsule job

description indicates. Give them a reasonable amount of time to complete and return the form, say two to three weeks.

7. Analyse the returned forms and distribute a summary of the results to participants.

Special surveys can justify the time and trouble, or expense, by producing usefully comparable data. It may, however, be difficult to get a suitable number of participants to take part, either because organizations cannot be bothered or because they are already members of a survey club or take part in a published survey.

Club surveys

Club surveys (pay clubs) are conducted by a number of organizations who agree to exchange information on pay in accordance with a standard format and on a regular basis. They have all the advantages of special surveys plus the additional benefits of saving a considerable amount of time and providing regular information. It is well worth joining one if you can. If a suitable club does not exist you could always try to start one, but this takes considerable effort.

Advertisements

Many organizations rely on the salary levels published in recruitment advertisements. But these can be very misleading as you will not necessarily achieve a good match and the quoted salary may not be the same as what is finally paid. However, although it is highly suspect, data from advertisements can be used to supplement other more reliable sources.

Other market intelligence

Other market intelligence can be obtained from the publications of Incomes Data Services and Industrial Relations Services. This may include useful information on trends in the 'going rate' for general, across-the-board pay increases that can be used when deciding on what sort of uplift, if any, is required to pay scales.

The features of the main sources and their advantages and disadvantages are listed in Table 48.1.

Table 48.1 Analysis of market rate data sources

Source	Brief description	Advantages	Disadvantages
Online data	Access data from general surveys	Quick, easy, can be tailored	May not provide all the information required
General national published surveys	Available for purchase – provide an overall picture of pay levels for different occupations in national and regional labour markets	Wide coverage, readily available, continuity allows trend analyses over time, expert providers	Risk of imprecise job matching, insufficiently specific, quickly out of date
Local published surveys	Available for purchase – provide an overall picture of pay levels for different occupations in the local labour market	Focus on local labour market especially for administrative staff and manual workers	Risk of imprecise job matching, insufficiently specific, quickly out of date, providers may not have expertise in pay surveys
Sector surveys	Available for purchase – provide data on a sector such as charities	Focus on a sector where pay levels may differ from national rates, deal with particular categories in depth	Risk of imprecise job matching, insufficiently specific, quickly out of date
Industrial/ occupational surveys	Surveys, often conducted by employer and trade associations, on jobs in an industry or specific jobs	Focus on an industry, deal with particular categories in depth, quality of job matching may be better than general or sector surveys	Job matching may still not be entirely precise; quickly out of date
Management consultants' databases	Pay data obtained from the databases maintained by management consultants	Based on well researched and matched data. Often highly tailored to specific market segments	Only obtainable from specific consultants and often confidential to participants. Can be expensive
Special surveys	Surveys specially conducted by an organization	Focused, reasonably good job matching, control of participants, control of analysis methodology	Takes time and trouble, may be difficult to get participation, sample size may therefore be inadequate. May not be repeated, therefore difficult to use for ongoing pay management

Table 48.1 *continued*

Source	Brief description	Advantages	Disadvantages
Pay clubs	Groups of employers who regularly exchange data on pay levels	Focused, precise job matching, control of participants, control of analysis methodology, regular data, trends data, more information may be available on benefits and pay policies	Sample size may be too small, involve a considerable amount of administration, may be difficult to maintain enthusiasm of participants
Published data in journals	Data on settlements and pay levels available from IDS or IRS, and on national trends in earnings from the New Earnings Survey	Readily accessible	Mainly about settlements and trends, little specific well matched information on pay levels for individual jobs
Analysis of recruitment data	Pay data derived from analysis of pay levels required to recruit staff	Immediate data	Data random and can be misleading because of small sample. Can be distorted if applicants inflate their salary history or if data geared to recruitment salaries
Job advertisements	Pay data obtained from job advertisements	Readily accessible, highly visible (to employees as well as employers), up to date. Data can be quite specific for public and voluntary sector roles	Job matching very imprecise, pay information may be misleading
Other market intelligence	Pay data obtained from informal contacts or networks	Provide good background	Imprecise, not regularly available

Interpreting and presenting market rate data

Market rate data need to be interpreted by reference to the details provided from each source and by assessments of their reliability, accuracy and relevance. If data have been obtained from a number of sources these will also have to be interpreted to produce a derived market rate that will be used as the basis of comparison.

Data can be presented as measures of central tendency or measures of dispersion. Measures of central tendency consist of the arithmetic mean (average) and the median – the middle item in a distribution of individual items. The latter is the most commonly used measure because it avoids the distortions to which arithmetic averages are prone.

Measures of dispersion consist of:

- the upper quartile – the value above which 25 per cent of the individual values fall (this term is often used more loosely to indicate any value within the top 25 per cent);

- the lower quartile – the value below which 25 per cent of the individual values fall;

- the interquartile range – the difference between the upper and lower quartiles.

Using survey data

The use of market survey data as a guide to pay levels is a process based on judgement and compromise. Different sources may produce different indications of market rate levels. As a result you may have to produce what might be described as a 'derived' market rate based on an assessment of the relative reliability of the data. This would strike a reasonable balance between the competing merits of the different sources used. This is an intuitive process.

Once all the data available have been collected and presented in the most accessible manner possible (ie job by job for all the areas the structure is to cover), reference points can be determined for each pay range in a graded pay structure, as described in Chapter 49. This process will take account of the place in the market the business wishes to occupy, ie its market 'stance' or 'posture'.

Market rate analysis – key learning points

The aims of market rate analysis

- Obtain relevant, accurate and representative data on market rates.

- Compare like with like, in terms of data, regional and organizational variations and, importantly, type and size of job or role.

Market rate analysis – key learning points (continued)

- Obtain information that is as up to date as possible.

- Interpret data in a way that clearly indicates the action required.

The concept of a market rate

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Factors affecting the validity and reliability of market rate data

The accuracy of job matching, the degree to which the sample frame (the elements in the sample) are representative and the extent to which the survey is up to date.

Job matching

Inadequate job matching is a major cause of inaccuracies in the data collected by market analysis. So far as possible the aim is to match the jobs within the organization and those outside (the comparators) so that like is being compared with like.

Use of benchmark jobs

A market rate survey should aim to collect data on a representative sample of benchmark jobs that will be used to provide guidance on the design of a pay structure or as a basis for market pricing.

Sources of data

Described in Table 48.1.

Interpreting and presenting market rate data

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Using survey data

The use of market survey data as a guide to pay levels is based on judgement and compromise. Different sources may produce different indications of market rate levels. As a result a 'derived' market rate based on an assessment of the relative reliability of the data often has to be estimated. This would strike a reasonable balance between the competing merits of the different sources used. It is an intuitive process.

Questions

1. From a senior line manager: 'You keep on telling me that there is no such thing as the market rate. I find that difficult to understand especially when I know that you spend quite a lot of time and presumably money in analysing what other organizations pay. Could you explain to me what you mean?'

2. From a line manager: 'I attach a collage of job advertisements that prove my contention that we are seriously underpaying my key staff.' How do you reply?

3. At a careers evening a bright young teenager points to a claim in your company literature that your pay package is in the upper quartile range. She asks what that means and why it matters. How would you explain the term and the organization's policy to her?