

Market rate analysis

PURPOSE

To ensure that pay levels are competitive, it is necessary to track market rates for the jobs within the organization, especially those that are particularly vulnerable to market pressures because of scarcity factors. This is sometimes called benchmarking.

Job evaluation schemes can be used to determine internal relativities, but, in themselves, they cannot price jobs. To a large extent, pay levels are subject to market forces which have to be taken into account in fixing the rates for particular jobs. Some specialized jobs may not be subject to the same external pressures as others, but it is still necessary to know what effect market rates are likely to have on the pay structure as a whole before deciding on internal pay differentials which properly reflect levels of skill and responsibility. It has also to be accepted that market pressures and negotiations affect differentials within the firm.

THE CONCEPT OF THE MARKET RATE

The concept of the market rate, even in the local labour market, is an imprecise one. There is no such thing as *the* market rate, unless this is represented by a universally applied national pay scale, and such cases are now rare. There is always a range of

rates paid by different employers, even for identical jobs, because of different pay policies on how they want their rates to compare with the market rates. This is particularly so in managerial jobs and other occupations where duties can vary considerably, even if the job title is the same, and where actual pay is likely to be strongly influenced by the quality and value to the business of individuals. It is therefore possible to use pay surveys only to provide a broad indication of market rates. Judgement has to be used in interpreting the results of special enquiries or the data from published surveys. And there is often plenty of scope for selecting evidence which supports whatever case is being advanced.

THE INFORMATION REQUIRED

When making market comparisons, the aim should be to:

- obtain accurate and representative data covering base pay, bonuses and benefits;
- compare like with like in terms of the type and size of the job and the type of organization – this is the process of ‘job matching’;
- obtain up-to-date information;
- interpret data in the light of the organization’s circumstances and needs;
- present data in a way that indicates the action required.

JOB MATCHING

The aim in conducting a pay survey is to compare like with like – the process of job matching. The various methods of job matching in ascending order of accuracy are:

- *job title* – often very misleading;
- *brief (two or three lines) description of job and level of responsibility* – this provides better guidance for matching jobs but still leaves much scope for inaccuracy;
- *capsule job descriptions* which define the job and its duties in two or three hundred words, some indication being given of the size of the job in such terms as resources controlled – these can provide a better basis for job matching but may still not produce the ideal degree of accuracy;
- *full job descriptions* which provide more details about the job but demand a considerable amount of effort in making the comparisons;

- *job evaluation* can be used in support of a job description to obtain reasonably accurate information on comparative job sizes, but it is very time consuming unless it is done through the UK surveys run on this basis by firms such as Hay and Wyatt.

PRESENTATION OF DATA

Data can be presented in two ways:

1. *Measures of central tendency*:
 - arithmetic mean (average);
 - median – the middle item in a distribution of individual items, this is the most commonly used measure because it avoids the distortions to which arithmetic averages are prone.
2. *Measures of dispersion*:
 - upper quartile – the value above which 25 per cent of the individual values fall;
 - lower quartile – the value below which 25 per cent of the individual values fall;
 - interquartile range – the difference between the upper and lower quartiles.

SOURCES OF INFORMATION

The following are the sources of information available on market rates:

- published surveys;
- special surveys;
- club surveys;
- advertisements.

These are described below and a comparison between them and other sources is made in Table 45.1.

Published surveys

There is a wide range of published surveys which either collect general information about managerial salaries or cover the pay for specialist professional, technical or

office jobs. The general surveys which are available 'over the counter' include those published by Reward, Monks Publications and Remuneration Economics. Incomes Data Services publishes a *Directory of Salary Surveys* which is a consumer's guide to all the major surveys.

When using a published survey it is necessary to check on:

- the information provided;
- the size and composition of the participants;
- the quality of the job matching information;
- the extent to which it covers the jobs for which information is required;
- the degree to which it is up to date;
- how well data are presented.

Published surveys are a quick and not too expensive way of getting information. But there may be problems in job matching and the information may be somewhat out of date.

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.

Special surveys can be conducted as follows:

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.
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 notes for guidance and capsule job descriptions.
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 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 which can be used when deciding on what sort of uplift, if any, is required to pay scales.

Using survey data

The use of market survey data as a guide on 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 something of 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 structure as described in Chapter 46. This process will take account of the place in the market the business wishes to occupy, ie its market 'stance' or 'posture'.

Table 45.1 Summary of sources of market data

Source	Brief description	Advantages	Disadvantages
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 surveys	Surveys, often conducted by employer and trade associations on jobs specific to an industry.	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.
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.
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.

continued

Table 45.1 *continued*

Source	Brief description	Advantages	Disadvantages
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.
Job advertisements	Pay data obtained from job advertisements.	Readily accessible, highly visible (to employees as well as employers), up to date.	Job matching very imprecise, pay information may be misleading.
Management consultants' databases	Pay data obtained from the databases maintained by management consultants.	Based on well-researched and matched data.	Only obtainable from specific consultants.
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.
Other market intelligence	Pay data obtained from informal contacts or networks.	Provide good background.	Imprecise, not regularly available.