Compensation Benchmarking

An introduction
COMPENSATION BENCHMARKING

BENCHMARKING

Benchmarking is a highly utilized risk management tool for organizations looking to continuously improve practices and processes. It allows Snap-on to evaluate specific practices and processes related to the company's strategic goals and objectives.

When done well, benchmarking evaluates measures and results in many areas, including compensation, performance, product, service and quality. By evaluating and measuring these areas, benchmarking can help organizations cut costs and losses.

Benchmarking is not easy, however, and it is never-ending. But most risk managers agree that it is a critical process integral to any entity's success, especially by accurately pinpointing where a company is today, so goals can be set for improvement tomorrow.

COMPENSATION

Compensation is a systematic approach to providing monetary value to employees in exchange for work performed. Compensation may achieve several purposes assisting in recruitment, job performance, and job satisfaction.

Compensation is a tool used by management for a variety of purposes to further the existence of the company. Compensation may be adjusted according the business needs, goals, and available resources.

Compensation may be used to:

- recruit and retain qualified employees;
- increase or maintain morale/satisfaction;
- reward and encourage peak performance;
- achieve internal and external equity;
- reduce turnover and encourage company loyalty; and
- modify (through negotiations) practices of unions.
WHY BENCHMARK COMPENSATION

Compensation Management is an integral part of Human Resource Management which helps in designing appropriate compensation package, motivating employees and improving organizational effectiveness. Compensation is the remuneration received by an employee in return for his/her contribution to the organization. Compensation Management is an organized practice that involves balancing of work expectation vs. employee output and offers monetary and non-monetary benefits in return to employee’s contribution. The work expectations / standards are redefined every year based on the strategic business objectives of the organization.

Compensation benchmarking provides you with important information pertaining to:

Recruitment: what does ‘the market’ pay for this kind of job?
Retention: are your salaries still market competitive?
Review: is your policy/practice still in line with the chosen market level?
Performance calibration: is your performance in line with the compensation?
Growth: is your compensation structured well enough to stimulate desire of further growth?
Structuring: how can your compensation be structured in future to competitively recruit, retain and perform?
Positioning: what is your desired market position and how can your current compensation structure help you achieve it?
Job: what kind of job / job description entitles what kind of compensation?
SOME COMPONENTS OF A COMPENSATION BENCHMARKING PROCESS

DEFINING CURRENT PROCESS
Identifying and determining current process and components of compensation is a crucial stage in redesign and/or validation of a compensation strategy. Compensation includes:

- Base Pay
- Commissions
- Overtime Pay
- Bonuses, Profit Sharing, Merit Pay
- Stock Options
- Travel/Meal/Housing Allowance
- Benefits including: dental, insurance, medical, vacation, leaves, retirement and taxes

GETTING THE DATA
Once measures are set, companies should determine who to compare themselves with. Organizations regularly benchmark against peers within the same industry. Even more important is benchmarking against one’s own self each quarter/year. Comparing data from year to year while taking into account changes in the organization will give a good barometer on setting goals for things that need to change and be monitored going forward.

By comparing cost of compensation and related performance data with that of peers, organizations gain an understanding of how their compensation program is performing compared to entities with similar operational/product/service dynamics. However, getting accurate, truly comparative and recent benchmarking data is very challenging. Usually, this takes some digging, but consultants who are in the domain of compensation benchmarking and survey can access applicable data from a wide variety of outside sources, including associations and industry groups and third-party partners among others.

VALIDATE BASIS OF COMPARISON
When obtaining salary information, consider the basis of comparison:

- Job Evaluation: uses established methodology, covers all jobs and is consistent across functions

Centre for Excellence in Organization Pvt. Ltd.
Job Matching: uses generic job descriptions, which may be underpinned by job evaluation but is unsuitable for unusual jobs

Job Title Matching: is very inconsistent between organizations, and provides unreliable results

Competencies: are inconsistently used between organizations, so is rarely used for market remuneration comparisons.

**Set Goals and Monitor Progress**

Once gathered, performance data should be analyzed for consistency, relevancy, organization and completeness. In short, data from outside sources should be validated for true comparativeness with internal data and measurements. Sometimes, this takes some manipulation of the means by which you capture and report your own data.

Once data is in apples-to-apples form, an experienced compensation benchmarking consultant can generate a clear picture of where the company stands today, making it easier to identify gaps and areas in need of improvement. Finally, goals and action plans can be put into place, organizational leaders to monitor progress toward those goals.
COMPENSATION BENCHMARKING PARTNERS

Compensation benchmarking partners facilitate the benchmarking process by capturing and reporting data vital for benchmarking performance. The data usually compares the total cost of an organization’s compensation data, along with correlated performance and job requirement, to a "mirror image" composite benchmark created from their internal survey and comparison data. This data is used to arrive at a possible formula to correlate expected growth and performance with stimulating and sustainable compensation. Capable partners and valid benchmarking reports help organizations align internal personnel and external resources to better manage compensation and ultimately create a best practice performance driven compensation program.
WHY COMPENSATION BENCHMARKING AND COMPENSATION BASED MANAGEMENT?

PHILOSOPHY AND BELIEF:
the approach to compensation models have shifted from being transactional to strategic;
good compensation package is important to improve organizational effectiveness;
compensation addresses not only the monetary need but also to the psychological and self actualization needs of an individual;
competitive compensation plans will attract and sustain best talent;
using the thinking capability of people to leverage business potential is the best way to grow business;
compensation is one of the key driving forces for people to work for organization;
right compensation modeling helps in running an organization effectively and accomplishing its goals; and
robust compensation and reward system brings harmony in the relationship of employer and employees.

COMPENSATION MANAGEMENT CAN MAKE A DIFFERENCE TO YOUR ORGANIZATION IF YOUR ORGANIZATION REQUIRES:
evolving Compensation strategies / techniques/Frameworks which would attract and retain the best talent, and at the same time benefit the organization as well as the employees;
establishing macro guidelines for compensation policy based on analysis of current practices vs. desired objectives, Market survey;
establishing guidelines for equality, competitiveness and motivation;
developing an equitable grading structure, and a reference salary structure;
designing annual bonus and incentives plans that motivate staff; and
determining the competency requirements and employee capabilities and pay individuals based on their competency match with the position.
CEO (Centre for Excellence in Organization) is a decade old organization assisting organizations to better their human and performance related processes.
For more information, please visit us at www.ceohrconsultancy.com

This compilation document is provided for information purposes only, and the contents hereof are subject to change without notice. This document is not warranted to be error-free, nor is it subject to any other warranties or conditions, whether expressed orally or implied in law, including implied warranties and conditions of merchantability or fitness for a particular purpose. We specifically disclaim any liability with respect to this document, and no contractual obligations are formed either directly or indirectly by this document. This document maynot be reproduced or transmitted in any form or by any means, electronic or mechanical, for any purpose, without our prior written permission.

CEO is a registered trademark of Centre for Excellence in Organization Pvt Ltd and/or its affiliates. Other names may be trademarks of their respective owners.