Attracting and Retaining Staff: Pay Benchmarking for Competitive Advantage

Introduction: what is pay benchmarking

Employers within the hospitality sector will be familiar with the concept of "benchmarking": comparing your business performance in a specific activity to the performance of other employers in the same activity. An obvious example for accommodation services is based on comparisons of "occupancy rates". The "star rating" system is a more formal means of benchmarking services.

Pay benchmarking uses the same concept: comparing the pay levels you offer for a specific role (or group of roles) to the rates offered by other employers in the same sector or location.

In this guide we explore different options for benchmarking and suggest ways in which this benchmarking should be a part of your overall remuneration strategy.

Winning staff: how to develop a robust reward strategy

In our earlier guide, "Winning Staff: How to Develop a Robust Reward Strategy" (January 2013), the four elements of Reward programmes were set out, and guidance was provided on how these elements need to be developed to work together effectively to ensure the attraction, retention and motivation of staff with the skills necessary to meet the organisation’s objectives.

Developing such a strategy is complex, however, and will take time and effort. Pay benchmarking is a key part of that overall strategy, but can also provide an easier-to-apply interim solution while the overall programme is being developed.

Options for pay benchmarking

Guide books on reward management typically define pay benchmarking by referring to “…a job, or group of jobs, used as reference points for making pay comparisons both within and outside the organisation.” Benchmark jobs are typically identified as having well known and stable characteristics, and for which credible market data (on pay rates and pay benefits) is readily available.

It is clear from this and similar definitions that there are commonly two types of benchmarking:

- **Internal Benchmarking** involves comparing the remuneration for a specific role with the remuneration levels for other roles within the organisation:
  - These **Internal Benchmark** roles (or “Reference Roles”) may be at the same level of responsibility, or at a different level – above or below the role being considered.

- **External Benchmarking** involves making comparison with similar roles in other organisations
  - These **External Benchmarks** are identified either through the use of standardised job descriptions ("job matching") or by a formal job evaluation process ("job sizing").
  - Remuneration data is then sourced from remuneration surveys on either a "job match" or "job sized" basis.

We examine each of these processes in more detail below.

Internal benchmarking

Internal benchmarking involves comparing the subject role with one or more designated **Internal Benchmarks** in order to establish where the subject role sits within the organisational hierarchy, in order to establish remuneration levels.
For this process to work effectively, Internal Benchmark roles typically meet the following characteristics:

- Responsibilities are clearly documented (i.e. there is an up to date and accurate job description) and are stable:
  - Responsibilities are unlikely to change in the short to medium term
- The remuneration level (or Grade or Pay Band) is stable
- The remuneration for the role may be directly linked to external remuneration levels
  - This link may be through either a job matching process or based on job evaluation/job sizing results.

Ideally the group of internal benchmark roles within an organisation will include both a vertical (i.e. representing all levels in the hierarchy) and horizontal “slice” through all Divisions/Departments and job types within the organisation.

Selecting internal benchmarks for specific roles

Where the subject role shares the same job description as a known internal benchmark the process is straightforward: unless there are well known and accepted reasons for differentiating, remuneration should be set at the same level as that of the selected Benchmark.

In many situations, however, that is not practical, as the subject role does not share a job description with any known Internal Benchmark role. In these cases it will be necessary to consider more than one Internal Benchmark, ideally selecting a mix from those:

- On the same level as the subject role
- At the level above
- At the level below.

As illustrated in the diagram below, these selected benchmark roles (in blue) are not necessarily in the same Division or Department as the subject role (in orange); the essential basis for comparison, however, is that their responsibilities are known and stable. The five roles identified with arrows all provide valid internal comparisons; typically only three would be needed to provide a reliable basis for remuneration decisions.

In the example illustrated we can ascertain that:

- Remuneration is below £50 000 (Managers A2 and C1)
- Above £22 000 (Role A2-b)
- Between £33 400 (Role B2-a) and £35 000 (Role A1-a).

On that basis remuneration could be set with a midpoint of around £34 300, which is consistent with the information available on the Internal Benchmark roles. Note however that this process uses simple extrapolation to set remuneration for the subject role. A more accurate result would be obtained by using a formal job evaluation process to establish clear relativities between the subject role and the selected benchmark roles, from which remuneration could then be derived readily.
This example also assumes remuneration is set for each role individually. The process would also be simplified if a formal "banded remuneration structure" was already in place, as internal benchmarking could be used to place the role into a specific pay band, for which a remuneration range has previously been established. This is explored in more detail later in this document.

**External benchmarking**

Surprisingly, External Benchmarking is likely to be easier than the internal equivalent. **External Benchmarks** draw on information available in formal remuneration surveys. As such services are carefully structured to make information readily available, the formal reporting processes will generally facilitate comparisons between the subject role and selected benchmark roles. Larger surveys will also provide access to a wider range of data on each role, often across multiple market segments (location, industry, annual turnover, staff numbers, for example). As the market value of a role may differ in each of these segments, such surveys provide considerable flexibility for pay setting.

Remuneration surveys will be one of two basic types:

- **Job Match** surveys report market data for a range of roles described in generic or “capsule” job descriptions
  - Comparisons are made by matching the requirements of the subject role with those of one of the survey roles
  - This approach is ideal where the majority of roles within the organisation can be matched to survey roles.

- **Job Evaluated** surveys rely on a standard set of analysis factors against which role characteristics are measured (“evaluated” or “sized”), to generate a **market index value** or **internal value**

• The Market Index Value/Internal Value represents the value of the role relative to other roles measured using the same set of factors
• Comparisons are made by evaluating the subject role, in order to derive remuneration values from the Market Index Value or Internal Value.
• This approach has benefits where direct matching on the basis of a job description will not work.

Note that some commercial surveys will cater for both approaches, providing both capsule job descriptions for selected roles (to support job matching) and Market Index tables (or formulae) from which to derive remuneration information for an evaluated role.

Regardless of the approach adopted a quality survey will allow a user to develop indicative remuneration ranges for a subject role, either by direct job matching, or by using the associated job evaluation process.

**Job evaluation and banded remuneration structures**

Any discussion of pay benchmarking is not complete without also touching on the subjects of job evaluation and the development of "banded remuneration structures".

As noted in the previous section job evaluation is a formal process in which roles are measured against a standard set of factors, in order to generate an index value which identifies where the role sits relative to other roles evaluated using the same system. As all roles are evaluated using the same set of factors, this process can bring greater accuracy to the benchmarking process, by applying a degree of discipline to what is essentially a subjective process.

### Remuneration Structure

**Organisation:** ABC Corporation  |  **Market:** All organisations  |  **Survey:** December 2012

**Design Name:**

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<th>Band</th>
<th>Internal Value</th>
<th>Remuneration Range</th>
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</table>
Many job evaluation systems are now available under licence for use within an organisation without the need for external consultancy support. For large numbers of evaluations these systems are likely to be more cost effective than systems which require external administration.

Pay benchmarking can also be enhanced by creating a “banded remuneration structure” in which groups of roles are placed together into a common pay band, to facilitate efficient rewards administration. Roles may be placed in these bands either by job matching or by using a formal evaluation process.

In the latter case bands would be defined by ranges reflecting the Market Value or Internal Value of the roles in each group, as illustrated.

This guide is a brief overview, however, the development of formal structures such as the one illustrated can bring increased confidence to remuneration management processes for both employers and employees.

This guide was compiled by Kevin McBride, Managing Director of MHR Global, a strategic remuneration consulting services firm helping businesses across all sectors to attract and retain people by better understanding how best to reward them. Kevin can be reached at: MHR Global Ltd, Suite 234, 8 Camp Road, North Camp, Hampshire GU14 6EW; by email at Kevin@mhr-global.com; or through the website at www.mhr-global.co.uk

Further resources
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acias.ecgroup.net

BusinessHR – a website and helpline available exclusively to Institute of Hospitality members. The services cover all matters regarding employment and supervision of staff.
www.instituteofhospitality.org/info_services/BusinessHRServices

Chartered Institute of Personnel and Development (CIPD) – world’s largest Chartered HR and development professional body. Provides information on reward management and performance related pay.
www.cipd.co.uk

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MHR Global – global remuneration and reward specialists with expertise in the hospitality industry.
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