

What Effect Will the Current Economic Climate Have on Salary Surveys?

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THE IMPORTANCE OF RELIABLE SURVEY DATA

The current economic conditions could cause a surprising issue for salary surveys in the upcoming year or two. It is plausible that salary surveys could unintentionally and artificially inflate the reported salary wages. As a compensation professional this would mean you could be setting your wages on inflated rates, creating a mistake that could compound itself year after year.

Most compensation professionals use commercially-available market salary surveys on a day-to-day basis. Among the common salary survey uses are:

- Assist in the annual compensation program review
- Help properly place a job new to the organization
- Provide guidance when a current role is changing duties

Even if an organization has a standard, internal job evaluation program, external data is very important for helping to determine external market competitiveness. Given that many organizations rely heavily on salary data to approximate the external market, it is very important that professionals use valid and reliable salary survey data. The more confident we are in our survey sources, the more confident we can be in our salary recommendations. That's why most of us don't conduct salary analyses using free self-report websites, for example.

Using poor salary survey sources for pay decisions is akin to a Physician diagnosing based on an outdated and incorrect medical manual. No matter how good the intentions, it is unlikely that the results will be accurate. This form of professional malpractice could reflect very poorly on you as a compensation professional.

EFFECT OF THE CURRENT ECONOMY ON SURVEY DATA

While the recovery timeline of the economy is debated, there is no doubt that the current economic conditions will have an effect on the survey publications for 2010 at the minimum. The initial impression for most compensation professionals is that the current economic conditions will cause the survey results to stagnate for the next couple of years, or even to decrease. However, there are more variables affecting these survey results than you would think. Below are a few of the variables that are most likely to affect salary survey results due to the current economic conditions:

Layoffs

Assuming that layoffs typically affect the low tenure and low paid employees, layoffs would actually drive reported survey wages up. It may seem counterintuitive that these economic conditions could help to cause a rise in survey data, but it is true if you think about it mathematically.

Smaller (or no) Salary Increases

The most common effect that enters everyone's mind when considering the effects of the

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economy are lower salary budgets. The effect of this item is clearly a minimal increase in reported survey wages.

Wage Reduction

Instead of instituting layoffs, some organizations have chosen to reduce wages in order to lower costs. Obviously, reduced wages mean lower reported survey wages.

Early Retirement

Early retirement may have the opposite effect of layoffs. This will tend to eliminate some of the higher paid employees from the organizations' survey responses.

Increased Outsourcing

As organizations look to decrease overall labor costs, it will be very tempting to consider the outsourcing of services such as housekeeping and food services. It is unclear if this would increase or decrease reported rates, but it could decrease the number of survey participants for certain roles and job families.

Less Survey Participation

The final effect of the economy on survey data is the likelihood of fewer participants. Survey budgets have tightened in Human Resources departments, so it is likely that fewer organizations will purchase salary surveys. Since few organizations will participate in a survey they don't plan to purchase, fewer organizations will participate in surveys. Whether this effect will cause reported survey rates to increase or decrease remains to be seen.

Out of all of the effects listed above, layoffs may have the most effect on published salary surveys. So, don't be surprised if the 2010 versions of your favorite salary surveys show a surprising increase in salary rates.

TIPS TO ENSURE YOU'RE USING VALID SURVEY DATA

1. Compare to last year

In any normal year, it's a good practice to compare this year's data to last year's data for at least a few of your key benchmark jobs. During these times it is essential.

Although it will add time to the task, it is worthwhile to compare at least a sample of survey jobs to the same survey in the previous year. This practice can help you determine if something has changed the market for a given role. Additionally, in these economic conditions, it will help uncover any of the effects mentioned in the above section.

If the survey data shows a median or average 10% higher than last year's data, you may want to consider making a minimal move for that role, rather than meeting the market. If the data continues on an upward trend over the next few years, it is more likely that the trend is real. However, if the effect is due to the poor economy, then we may very well see the market median stabilize or even decrease as the economy recovers and more workers are hired.

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2. Use multiple data sources

Compensation professionals should already know some of the limitations of salary survey data. No one salary survey source is without fault. To help combat this fact, we typically recommend a market match consisting of multiple data points.

This methodology is more likely to help balance outliers if one salary survey is more susceptible to the effects of the economy than the other surveys. You will diminish the variability of the salary data and will increase your confidence in the data as you use multiple, valid survey sources.

3. Examine the data

Look at the data range between the quartiles, the median, the simple mean, and the weighted mean. Where available, it also helps to look at the average salary range minimum and maximum for comparison purposes.

You will be looking for a nice even distribution of these data points. For instance, be leery of a data set that shows the simple and/or weighted mean below the 25th percentile or above the 75th percentile. Furthermore, toss out data where the median is below the 25th percentile or above the 75th percentile since that is mathematically impossible and indicates a mistake made by the survey provider.

4. Pay attention to the reported salary range as well as the median/average

The reported salary range is much less likely to be affected by layoffs, reduced wages, and early retirement. Organizations may layoff low-paid workers and may incentivize workers to retire early, but the salary ranges will not be affected by these situations.

We know that many of the entry-level roles tend to have a mean and median low in comparison to the quartiles and the average salary range. In contrast, higher-level roles find the opposite effect. In these cases, it is important to understand the interplay between all of the data points. Otherwise, you may be setting your salary range minimum (off of a measure of central tendency) too low for entry-level roles or too high for professional roles.

Imagine that you are hiring a housekeeper and would like to set your salary range based on external market data. The survey data shows average pay for this role at \$11.00 per hour. However, the average range minimum (or

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start rate) is listed as \$10.00 per hour. This makes sense since the housekeeper tends to be a role with a lot of turnover and “churn”.

If you set the range based on the market average of \$11.00, you may be dropping your start rate too low to be competitive. If we choose a range width of 40%, this would drop your salary range minimum to \$9.17 per hour. This obviously drops your salary range minimum well below the market average salary range minimum of \$10.00.

5. **Research the source of the data**

In most of the larger surveys, we know that the data is compiled from human resources professionals. However, many smaller surveys may collect data from the incumbents themselves. While this data may be fine, it is right to consider that data under closer scrutiny with the idea that incumbents may inflate their own reported earnings.

6. **Review the number of participants and the number of incumbents for the survey matches**

This strategy will help give you a sense of the value of the data being reported. In general, as long as the scope of the data is relevant, more participants and more incumbents result in a more reliable data source. You may even choose to weight your market match based on the number of incumbents for each survey match.

Use the methods above to help capture a more comprehensive understanding of the salary survey data that you are using. These methods will help you uncover invalid salary data and will help you gauge the effects of the current economic conditions to ensure that you are making your compensation decisions on valid data.

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