Why Salary Benchmarking is Important for Employers and Employees

If you are employed in the Human Resources (HR) department, you may be familiar with salary benchmarking. Or, you may have wondered if the remuneration packages within your company align with those offered by other companies of a similar industry or size. Either way, how exactly do we define salary benchmarking, why does it matter, and how does an organisation approach it?

What is salary benchmarking?

Salary benchmarking, also referred to as compensation benchmarking describes the process whereby information on pays and benefits for several organisations is gathered. Internal job descriptions are paired with similar external job descriptions to establish the market rate position for each. The information obtained is then used to calculate the average salary for specific roles within a company. Notably, very few employers can access this information and gaining it has proved challenging.

Salary benchmarking is a crucial aspect of business management, particularly among employees. It summates the process employed by a business to identify, follow and compare like salary costs to deduce the pay package for its employees. For HR, salary benchmarking is vital for comparing the pay and benefits offered against competitors. This can ensure employee retainment and allows companies to determine their competitiveness within the marketplace. HR employees need to perform these market assessments and salary comparisons as efficiently and accurately as possible. Several factors like geography, company size and education level are considered in a final salary and before filling the position.

Why your business needs salary benchmarking

Many employers fear losing employees in top executive positions to better offers or packages from their competitors. Salary benchmarking is a means to display employee value and update stakeholders with the latest industry salary trends. As variations in salary are the difference between keeping or losing valuable directors and satisfying stakeholders, salary benchmarking is critical for organisational success.

How to approach salary benchmarking

Salary benchmarking is comprised of research through outsourced benchmarking tools and data sources. For listed organisations, a majority of the information is available publicly in annual company reports – you can access this on recruitment sites, where some recruitment companies can obtain salary information from hundreds of employers. Few companies will have the required resources to search the large amounts of these reports, and enlisting a third party to conduct this work can be beneficial and efficient.

Salary benchmarking lets recruiters and employers better understand the job market and existing or potential employees. It provides organisations with a neutral and accurate view of salary information to facilitate informed and constructive decisions while accounting for differences in the process.