

How Do Employers Know If They Are Paying Their Employees Competitively?

An employer might answer this question by saying: "My employees tell me if I am paying them competitively or not!" But how do you respond to them? Do you have the information needed to say "Yes you are" or, "No you are not paid competitively because....."? If you don't know the answer to this important question, it is worth investigating for several reasons.

If your employees feel they are underpaid relative to other jobs doing similar work, they will resign sooner or later. To be motivated to leave, they would need to be underpaid by a minimum of 5 to 10%, depending on their current salary. As an employer, you would then face the expensive costs of recruiting, selecting and training a replacement. You may have a revolving door of new employees if you never want to pay a competitive wage. How would your customers react to always dealing with new employees?

Other problems with underpaying your employees are lack of motivation. If they know they are underpaid but can't find work elsewhere, they may just put in the time until something else comes along. How is your business going to grow and prosper if your employees are just doing the minimum amount of work? Most employees want to contribute in a positive way and see their company be successful. However, if they feel they are getting "ripped-off" by their employer, don't expect them to put any extra effort into their job performance.

This brings us back to the original question; how can an employer know if their employees are paid competitively? There are several sources of information known as compensation surveys, for employers to know the answer to this question. Generally the quality of compensation surveys can be divided into 3 levels, let's call them A, B and C.

"Level A" is the best source of compensation information. This survey is based on the same industry as your company and the jobs included are very close to the type of jobs in your company. Rarely will you have a perfect match with respect to the exact same job duties for every employer but it is certainly possible to match 75 to 80% of the duties. These surveys are typically association, industry or "custom" surveys that are designed and administered by a compensation expert. The information provided is reliable in knowing where the compensation paid to your employees is in relation to same jobs in the same industry.

"Level B" surveys are considered the next best thing as they provide information on similar jobs but within a different industry. Examples of these surveys include a Board of Trade or Chamber of Commerce survey where different companies participate and the survey may not be administered by a compensation expert.

Examples of "Level C" surveys are internet based surveys, whereby information is obtained by job applicants, prospective employers and headhunting firms. As you can imagine, the data may be inflated due to the source of information. The survey



data can only be considered as a broad indicator on where your salaries are in relation to the market. Handle with care!

As you can see, it's not easy knowing where to get reliable information. In running a successful business, it pays to work with an expert to get the best advice available.

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