Survey Best Practices

A Collection of Articles From WorldatWork
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Introduction — Salary Surveys

John H. Davis, Ph.D., CCP

This book is a reference tool for today’s total rewards practitioner who needs to learn the basics of salary surveys and their analyses. The various articles, written by experts in their fields, give the practitioner a wealth of information about surveys, ranging from salary survey fundamentals and how to find and evaluate surveys to perspectives on benchmarking and on sales and executive surveys.

There are many “right” ways to conduct and use surveys. However, generally accepted principles (e.g., match on job content, not on job title, and be transparent with your methodology) are emphasized. The differences of approaches and opinions presented here will give you a wide perspective and context that will enable you to make appropriate decisions suitable to your situation. Hence, consider the material presented here as guidelines and not as rigid rules.

You should be aware that safe harbor guidelines for salary surveys for the health care industry were published by the government in 1996. (See “Salary Surveys and Antitrust” published by WorldatWork.) It should be noted that the government stressed that these were guidelines and not mandates. However, many, but not all, companies and survey providers have adopted these guidelines as policy. You should acquaint yourself with them so you can make an informed decision that is appropriate for your organization and for the type of analysis you require.

Some surveys are closed, which means that only the participants can receive the results. Many industry surveys require membership, or are established “club” surveys, in which participants have to be invited to join, usually by a steering committee. These survey groups often require that a company meet specific criteria before being accepted into the group. Other surveys are open, which means that any company can receive the results by paying a fee, or by paying a fee and agreeing to participate in subsequent surveys.
Defining the Terms of Salary Surveys

As surveys and their use are statistical in nature, the compensation practitioner should be familiar with certain statistical terms. The following list provides a quick thumbnail of the most common terms used in surveys and survey analysis.

**Median:** A measure of central tendency and is a value that is in the middle of a set of ordered data. It is not affected by data points with extremely high or low values (outliers). That stability and the insensitivity to extreme values are its main positive attributes. However, it does not use all the information represented by the data, but just the information in the middle when the data are ordered. The median answers the question, “What is the middle salary in a set of ranked salaries?”

**Mean (Average):** A measure of central tendency of a set of \( n \) numbers and is defined as their sum divided by \( n \). It is also known as the simple mean and the simple average. Its main positive attribute is that it does use all the information in its calculation, and as such, represents in its own way, all the information. However, because it does use all the information, outliers will have an impact. For example if values are extremely high, the mean is pulled toward the high end. The mean answers the question “On average, what are incumbents in a job paid?”

**Weighted Mean, Unweighted Mean:** Typically, these terms apply when averaging averages or combining averages from different companies or from different surveys, and it is necessary to combine them into a single number. Weighting is a method of assigning importance to a number.

The **Weighted Mean (Weighted Average):** The average of the company averages weighted by the number of incumbents in each one. It treats each incumbent equally. In this case, you are deciding that the averages of companies with many incumbents are more important in identifying the “market pay” of a job than the averages of companies with just a few incumbents. The weighted mean is mathematically equal to the mean if all the individual salaries are available and used to calculate the mean. Hence, the weighted mean also answers the question “On average, what are incumbents in a job paid?”
The Unweighted Mean (Unweighted Average): The simple average of the company averages. It treats each company equally. In this case, you are deciding that each company’s average is of equal importance to every other company’s average in identifying the “market pay” of a job. The unweighted mean answers the question “On average, what are companies paying a particular job?”

**Percentile:** A value that a given percentage of the data is less than or equal to. For example, the 90th percentile is a value that 90 percent of the data are less than or equal to. The 50th percentile is the median. Standard percentiles reported in salary surveys usually include the 10th, 25th, 50th, 75th and 90th. The 0th percentile is the minimum value in the data set and the 100th is the maximum.

More than one way exists to calculate a percentile, and different survey providers may use different methods. (Indeed, in some spreadsheet programs, you have a choice.) For practical compensation decision-making purposes, the results are usually close together. Whichever method you choose to use, be transparent with the method, and be consistent in applying the same formula to all the jobs and over time.

**Range:** A measure of variability and is the difference between the high and low values of a data set. Its main advantage is its ease of calculation. Its main disadvantage is that because it is defined only by extreme values, it is greatly affected by them, so one additional extreme point could change the range a lot. It also does not indicate anything about the variability of the data points in between.

**Standard Deviation:** A measure of variability, and is the “average” deviation of all the data points from the mean. You should know whether the standard deviation presented is a population standard deviation or a sample standard deviation. For sets of more than 30 data points, the difference is 2 percent at most. The larger the standard deviation, the more spread out are the data points; the smaller the standard deviation, the closer together they are. Its main advantage is that like the mean, it uses all the information, and thus, in its own way, represents all the information. Its main disadvantage, like the mean, is that because it does use all the data points, it is affected by extreme values.
These two measures of variability (and others) are used by survey providers to identify outliers that need further investigation as to why they are outliers, and by compensation practitioners to identify changes in pay variability that need further investigation as to the reasons for the changes. In both instances, they have built their own history files of variability that indicate what variability is expected for jobs and what variability is cause for investigation.

**Compensation Model:** In the context of analyzing salary surveys to identify market position and establish pay ranges, a description of the relationship between external value, as represented by survey data, and internal value, as represented by whatever the company uses as a valuing metric, such as job-evaluation points, grades, years of experience, organization size and pay. Typical compensation models are linear, exponential, maturity curve and power.

**Coefficient of Determination, Correlation:** In conjunction with a compensation model, measures of association between two variables, such as survey pay and internal grade for matched jobs, indicating how close or strong the association is. **Coefficient of Determination** is a direct *quantitative* measure indicating, in this example, how much of the total variation in survey pay can be attributed to the relationship with grade. **Correlation** is a *qualitative* measure of the strength, and indicates whether the relationship is positive or negative between the two variables.

**Salary Surveys as Market Research**
Practitioners who have expertise in salary survey analysis understand the importance of validating and interpreting the statistics tables and research put forth in these surveys. Salary surveys are simply a form of market research used to make informed decisions. These data will give you insight into market trends and practices that will help you build a framework for your organization’s compensation policies. A plethora of free salary data is published on the Internet that can often confuse employees and executives alike. Explaining the content and source of market data provided in quality salary surveys can help build credibility in your total rewards programs and put those programs into business context for the organization and its constituents.