May 2019

Benchmarking 101: How to Benchmark, and Why It Matters

To recruit top talent in today's competitive market, it's important to know what your peers are paying and compare your compensation strategy against this data. Regularly benchmarking your firm's positions to survey matches is the best place to start. This article delves into the ins and outs of benchmarking and provides a quick guide for making the process as seamless and effective as possible.

United States unemployment remains low, at 3.8% in 2019, and is expected to stay fairly consistent through 2021. In 2019, employers expect to hire 16.6% more graduates from the Class of 2019 than they did in previous years, according to a recent survey conducted by the National Association of Colleges and Employers.

Competition is clearly fierce in the job market, and to recruit top talent, it's important to know what your competitors are paying. Benchmarking your organization's positions to survey matches is the best way to ensure your firm's pay is aligned to market. This market-based approach relies on maintaining a holistic view and understanding your organization's positions in the following key ways:

- **Scope:** What are the responsibilities for this position?
- **Level:** What is the level of responsibility, authority, and oversight for this position at my organization?
- **Internal alignment:** How does this job compare with other jobs at my organization in terms of hierarchy?

With this information, organizations can better benchmark their positions to compensation surveys, like McLagan's 2019 Regional and Community Banking Survey, providing the most accurate market data for your firm.

When to benchmark

When you want to confirm that your firm's wages are competitive in the market, benchmarking is the tool to use. It's important for your organization to benchmark a fourth to a third of your employee population each year. This consistent updating will ensure that your salary structure continues to be in line with the market. For more information on salary structure maintenance and its importance at your firm, read our recent article, Top 5 Ways to Maintain Your Salary Structure.

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While annual review is extremely important, taking a deeper dive into specific jobs or departments and regularly evaluating their standing is often necessary year-round. Below are a few examples of situations that may call for a more intensive review of your benchmarking to ensure market competitiveness.

1. **Reorganization**: When a firm or a specific line of business reorganizes, there may be fluctuation in the scope of responsibility for a position, roles may blend with others, and new positions could be created. This is a great time to review benchmarks, as the change may have rendered previous benchmarks obsolete.

2. **Hiring issues:** As business demands change, certain positions gain importance in the marketplace. If pay falls out of alignment with competition because benchmarks are not appropriately updated, or if market data is unknown or outdated for hot jobs, a position may remain open for an extended period of time. Truly understanding the expectations of the role and verifying that the correct benchmarks are used will provide management with confidence that their compensation offerings are market competitive.

3. **New position creation:** In all firms, situations arise where a new position must be created. In these cases, the compensation team at your organization should benchmark to your survey sources for that specific role to certify that pay is in line with what the market offers.

4. **A change to compensation strategy:** If your organization is changing something foundational to its compensation practices, such as a salary structure or an incentive plan, it's important to understand what the market is doing for specific positions or groups of positions. For example, understanding how to benchmark your commercial lending group can provide deeper insight into determining new pay structures.

Benchmarking 101

Setting out to benchmark every incumbent at your firm can be an onerous process. Here are some important guidelines for benchmarking your organization's employees that our experts would like to share:

Benchmarking jobs versus incumbents
When benchmarking, it's tempting to look at an incumbent who holds a role, and benchmark based on his or her years of experience, scope of responsibility, and internal alignment. However, we advise clients to look at the job rather than the incumbent. What qualifications and experience would you look for if you had to hire someone for this role? Sometimes, incumbents perform above and beyond what the position requires, but the benchmark should always reflect the job description over the person holding the job.

Similarly, avoid comparing your pre-existing internal compensation to market data when benchmarking specific jobs. Letting market data drive the job match to create alignment to internal pay does not provide an accurate representation. While it may cause little disruption to pay changes in the short term, it will likely result in long-term issues for retention and hiring in the future.

Don't rely on titles, rely on responsibilities
At one firm, an AVP banker may indicate a low-level employee serving at a branch. At another firm, this same title may designate an intermediate commercial lender. Because of this inconsistency, we encourage clients to review the responsibilities, years of experience, and scopes of positions rather than simply using the job title to find the correct match.

70% match rule

Each firm is unique. Whether it's a firm's culture, business line, or job hierarchy, no two firms will have the exact same structure. Because of this, jobs and job types vary from firm to firm, and finding a benchmark that fits your role 100% is difficult across the entire job population. Our rule of thumb is to locate a position where 70% or more of the job responsibilities match. It's normal to have a few unique jobs that don't have strong benchmarks. Forcing a job into a benchmark that isn't a good fit will negatively impact your survey results.

Why benchmarking matters

Matching your organization's positions to a survey benchmark is crucial to ensuring that your firm's compensation philosophy is supported by your HR practices. Maintaining knowledge of where positions within your organization fall in relation to market data allows your firm to remain competitive in a tight job market. This means you'll not only recruit more effectively, but you'll be able to retain the talent at your firm.

Remaining aware of market data can also help processes function more smoothly. Benchmarking additionally supports the creation of an annual salary structure review based on updated market data. Year-over-year positions are evolving with new business needs, and market trends shift pay requirements. Setting a schedule to review a portion of your organization's roles each year—by business unit or job family, for example—is a solid way to strategically stay on track and in line with the market.

McLagan has access to the largest financial services database in the country. With this data, we can partner with your firm to ensure you are aware of the latest trends that impact your organization and provide data-driven solutions for any problem your compensation department is facing. To learn more about benchmarking opportunities, please contact our team.

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