

HOW TO USE BIG DATA FOR EFFECTIVE **COMPENSATION BENCHMARKING**



Introduction

While the phrase “Big data” is a commonly used term today, and justifiably given the amount of data we now work with on a daily basis, it’s not as often that we discuss the implications of having all this data at our fingertips.

Now more than ever, there’s a wealth of data available for compensation benchmarking. Yet, while the increase in quantity of market data is ultimately beneficial for benchmarking, it also presents some difficulties, especially for busy compensation managers.

For one thing, the increase in the amount of available data has caused an increase in complexity surrounding this how to use it. So while *more* data can now be accessed, that doesn’t necessarily mean that the value of it has increased. In fact, without a means of strategically accessing, organizing, and interpreting this data, it might actually wind up complicating compensation decisions further, instead of simplifying the process.

Of course, this doesn’t change the fact that big data is still the best tool we have for compensation benchmarking while also providing greater transparency and real-time visibility into the process. In this guide we’ll show you how to get the greatest possible value from your compensation data by sorting and managing it properly including:

- ✓ The Past, Present, and Future of Pay Markets
- ✓ An Introduction to the Three Talent Segments
- ✓ How to Maximize the Value of Data for Each Talent Segment
- ✓ How Comp Teams Can Become Talent Economists

Let’s get started tackling all of that big data.



Pay Markets: The Past, Present, and Future

Pay markets have changed over the years, and they are continuing to evolve at a rapid pace. Let's take a look.

Past

Until recently, an organization's compensation department was entirely responsible for analyzing the pay market. They relied on well-defined sources (surveys) and processes (benchmarking) and the process was highly manual.

Present

Nowadays, with the recent explosion of readily available market data – primarily retrieved from online sources – there are more possibilities than ever for compensation benchmarking. Additionally, more stakeholders own the processes surrounding the supply and pay of talent. For instance, when freelance and contract workers are being selected, it's often operations and procurement that seeks out these individuals – not necessarily HR. This creates many silos, and there are many different talent markets. While all of these groups *should* be working collaboratively, oftentimes they aren't. There are many different processes that don't intersect, due to the fact that there are many different objectives across the companies. Additionally, the processes are still very manual.



Future

Instead of having many silos, we expect that in the future, the processes surrounding the pay market will become more integrated. There should be tighter collaboration across stakeholders, and instead of relying on manual processes, managers will be able to use automated tools, such as compensation planning software, to help inform their decisions.

Now that we have an understanding of how the pay market looks today and where we want to go for the future, we can begin to analyze how we can apply some best practices to each of the unique talent markets. We'll start with an introduction to the three distinct markets.



The Three Types of Talent Markets

Before we discuss the best ways to use big data for better comp benchmarking, we must first understand the three types of talent markets. They include:

1. **Talent At Rest:** This refers to your current employees.
2. **Talent In Motion:** Your talent in motion is made up of employees who are changing jobs (most likely to a different company).
3. **Talent For Rent:** These individuals are freelance, contract, and temporary workers.

It's important to distinguish among each of these talent markets, because the way we interpret data for each is unique. We'll discuss this in greater detail in the upcoming sections.

Talent At Rest

Market data is perhaps the strongest for your talent at rest. Thanks to your internal labor market, your data will be very stable. As such, your goals in analyzing market data to benchmark jobs for your talent at rest will often be to boost retention and achieve alignment across the organization, especially if you're operating on a global scale.

Compensation managers often utilize surveys and online data sources for compensation benchmarking for talent at rest. Keep in mind, however, that there has been recent speculation over the credibility of individually-reported data sources.



Challenges

- ✓ One issue with using traditional surveys to benchmark compensation for talent at rest is that there's often a significant time delay – typically 12 to 24 months – between the time surveys are first collected and pay decisions are actually implemented.
- ✓ Another problem is that the gathering, organizing, and analyzing of the data can become a huge administrative burden.
- ✓ Global organizations also face the unique dilemma of inconsistent availability of data. For instance, there may be a great deal of available data in the U.S., but it may be limited in other countries.

Maximizing The Value Of Data

While there are a few different approaches you can take to make benchmarking easier for talent at rest, compensation is the simplest and most effective solution to reduce the complexity in general. This will allow you to get the most value out of the available data.

In the U.S. alone, there are thousands of jobs that can be benchmarked. At one point, there was a desire to analyze these jobs with as much precision as possible, which also caused an enormous amount of complexity throughout the process. Now, solutions like compensation software offer more power through technology. It provides you with only the critical information you need and allows compensation managers to take a more compact, structured approach to benchmarking.

Ultimately, it encourages simplicity.



How You Can Reduce Complexity

One additional strategy you can implement right away to alleviate complexity is to simply reduce the number of benchmark jobs that you price on a regular basis. This may sound counterproductive on the surface, but it's not. Here's why: managers are finding that it's actually very practical to reduce the number of jobs they benchmark, because there are often big spreads from the median in pay for jobs with precise requirements anyhow. For instance, [recent data](#) shows that there could be as much as a 50% chance that paid decisions for jobs with precise requirements will fall between 16 and 19% from the median pay anyhow, even when you do rely on benchmarking. Because the underlying distributions aren't very precise to start with, it's ultimately not worth the appearance of more precision.

Thus, to reduce complexity, you might want to consider implementing a job catalog. This allows you to create a synchronized framework in which you'll define a standard list of benchmark jobs that are aligned to your organization's salary structure. In doing so, you'll not only break down the silos, but you'll also reduce the complexity of market data and systems administration. You'll also have a framework in place for other talent management processes. It still allows you to accommodate for variations, but takes a much simpler approach and encourages organization-wide alignment.



Talent In Motion

For the talent in motion pay market, the economic drivers are very different from the talent at rest segment. The nature of this market is much more dynamic, and it is also subject to geographical and local conditions.

Additionally, in the talent in motion pay market there is often more power for the candidate versus the company. Oftentimes, HR's goal for establishing benchmarks here is to boost attraction within the external labor market.

Because we are focusing on the external labor market here, we have to rely on other sources for data. You can consider services for online resources that measure job posting data and recruiting profile data.

Challenges

- ✓ The limitation here is that data is typically "inferred," and that self-reported data is not always trustworthy.

Maximizing The Value Of Data

While some online sources have their weaknesses, they have some overwhelming strengths, too. For one thing, they are extremely advantageous for showing sensitivity of pay according to very specific skills. Many of these sources are updated frequently, which allows compensation decisions to be made in a timely manner.

Another tactic you may want to consider is strengthening your partnership with recruiting organizations. That way, you can facilitate transparency in terms of compensation data.



Talent For Rent

At this point in time, the dynamic nature of talent for rent makes it very difficult to access reliable market data. This is likely a space that will evolve as the demand for freelance, contract, and temporary workers increases – and it will: it's predicted that by 2020, half of the labor force will be made up of freelancers. And, already in 2014, one-third of the U.S. workforce is considered "independent" (source: [Forbes](#)).

Challenges

- ✓ Currently, there aren't really any set standards for this group, and therefore, there are many competing views.
- ✓ The data sources for this market are very limited, and the information is fragmented. The supply chain can be vast and complex.
- ✓ The audience is typically restricted to operations leaders or procurement managers, as HR does often not become involved in recruitment of these individuals. This also takes place on a situational basis, making it even more difficult to gather data of any value.

Maximizing The Value Of Data

This is an area that will grow in the future as companies become more aligned and unified in their overarching goals and silos begin to dismantle. Automated processes may also aid in the retrieval, organization, and analyzing of market data in this space.



Becoming A Talent Economist

Today, compensation professionals must assume the role of talent economists within their organizations. They can do so by:

- ✓ Promoting awareness of the complete picture of the labor market (including the three talent segments) for managers and business leaders
- ✓ Advising on appropriate decision making for each talent segment to positively impact both near- and long-term business outcomes
- ✓ Integrating labor market data to give business leaders the ability to make informed, strategic compensation decisions
- ✓ Driving collaboration throughout the organization in terms of talent processes (and discouraging the development of silos)
- ✓ Illustrating the power of new tools, such as automated compensation planning software

While this may seem overwhelming at first, taking these steps will in fact alleviate administrative burden and streamline the processes of compensation benchmarking.

Summary

At this point, you should have an overview of some techniques you can use to optimize market data for effective compensation benchmarking. To review, we discussed:

✓ **The Past, Present, And Future Of Pay Markets:**

Compensation managers used to be solely responsible for analyzing market data, and the benchmarking process was very manual and straightforward. Recently, an overabundance of data has complicated the process, along with an increasing need for companies to hire freelance, temp and contract employees. The process is still very manual, but in the future it will likely become more automated and aligned across each company.

✓ **An Overview Of The Three Talent Segments:**

You must first identify the three types: talent at rest, talent in motion, and talent for rent, because there are different economic drivers for each category.

✓ **The Challenges Of Each Talent Segment, And How To Maximize The Value Of Data:**

- ▶ **Talent At Rest:** While the market data may be most stable for this group, you'll still need to overcome the challenges of applying data in a real-time, global, 24/7 workforce. It's also important to reduce the administrative burden. To do so, the goal is to reduce complexity by creating a labor catalog and relying on available compensation planning tools.
- ▶ **Talent In Motion:** By nature, this group is dynamic and fast-paced, so comp planners have to keep up with current market data. They can rely on external sources for data that's up-to-date, and maximize its value by analyzing specific skills as needed. This data is typically very sensitive to skills, which can be advantageous for the unique positions you have in your organization.
- ▶ **Talent For Rent:** As of now, the means of optimizing market data for this group are limited because the data itself is limited. There are currently no set standards for freelancers, contractors, and temp workers, and the need for them is very situational. With that being said, we'll likely see market data evolve as the demand for these workers increases.

✓ **How Comp Professionals Can Become Talent Economists:**

Compensation specialists can inform other managers and business leaders about the information detailed in this guide, and assist them in making strategic compensation decisions. They can also encourage collaboration and communicate the power of compensation planning tools for aligning a global or fast-growing organization.

Resources

COMPview | Compensation Planning Software

Automate, Align & Simplify Complex Compensation Planning

Not sure where to start? We would love to help. Contact us for a wide variety of additional resources and learn more about our best-of-breed compensation planning software, COMPview.

[Click here](#) to learn more & watch a short demo.



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