In My Opinion

Benchmarking: What it is and what it isn’t

By Theresa M. Welbourne, Ph.D., eePulse Inc.

Early in my HR career I found myself doing quite a bit of work in the field of compensation. I worked for larger, well-established and smaller, growth-oriented companies. In all of these jobs, when developing new compensation plans or revitalizing existing programs, I utilized large quantities of data. This data came from internal sources (current wages, historical pay patterns, etc.) and many different types of salary surveys. The survey data was used to determine if current wages for various jobs were above average, at average, or below average. This early experience taught me to be a data skeptic and to question every aspect of the compensation survey itself and the process used to obtain the data.

The Early Training Years

The organizations I worked for always purchased more than one compensation survey because, even in the smaller firms, they competed nationally for some jobs and locally for others. Therefore, it was important for the compensation teams to obtain data from multiple sources. Thus, we learned to ask a lot of questions about the surveys themselves. We needed to know where the compensation survey data came from — what part of the country, what types of firms were included, how representative were the participating firms, and more.

That early training in compensation helped me out considerably when I moved into independent consulting in Boulder, Colorado. At that time, a few large companies dominated the Boulder employment scene. One of those large firms was IBM, which back then, had a “no layoff” policy. IBM was known as a great place to work in Boulder; they offered extensive benefits, above average salaries and perceived job security. Thus, when I started consulting with a local start-up company, and they asked me to use their compensation survey (only one survey this time), based on data gathered from the local market and that focused on jobs that were dominated by IBM, I knew the compensation data was inappropriate for our purposes.

Bad Benchmark Data

This particular start-up company received over US$100 million in venture capital funding, and the executive team wanted a pay policy that set entry-level salaries at 20 percent above the market average. Their 20 percent above average goal was design to “fit” their HRM strategy of only hiring the best and brightest employees. However, with salary data that was heavily weighted toward IBM’s pay...
structure (with long-term, high seniority, and very highly paid employees), the benchmark data was not really representative of the Boulder market for entry-level employees. When 80 percent of the data points in the compensation survey come from one company that pays above average, adding another 20 percent to the averages created another average that was really about 55 percent above what the start-up company needed to pay for entry-level workers. Unfortunately, the end to this particular story is not a happy one. The CEO and executive team did not want to hear “where” the data in the compensation survey originated, and they did not care to understand that they were planning to pay rates so high above average that they were (in my opinion at least) wasting their investor’s money. In fact, this firm went on to waste lots of money (as I recall, the entire US$100 million), and they went out of business before they ever sold a product.

Working with Data Today

Now, I fast-forward to 2005, over 25 years later. I no longer work with compensation surveys, but in my new roles I still work with data. Today, I find myself working with large employee and customer survey data sets. I also work directly with many HR executives who use employee survey data to make major organizational decisions. The HR teams use their survey data to set employee goals, integrate scores into balanced score cards, and develop action plans.

However, executives have the same question about their survey data. They want to know if their scores are good or bad. In many cases, they answer this question by using what is utilized in the compensation field; they use benchmark data. The only difference between compensation benchmark data and employee survey data is that it appears that much less is known about the employee survey benchmarks.

Good Benchmark Data

Benchmark data, in many cases, are historical in nature. Unlike compensation surveys that are conducted annually, and that require all participating firms use the same standard definitions of job titles and compensation, employee survey benchmark data seems to be less structured. The benchmark data can be from data collections done up to 10 years in the past. I can’t imagine comparing compensation data or other data such as stock price — gathered today — with comparable data from five, 10 or even one year(s) ago. I even get concerned about how the month’s data is collected.

If an employee survey is done in December versus being conducted in February, I expect differences. I do a lot of trended surveys and always see what our team calls the “holiday effect” in our data; employee attitudes start to dip around Thanksgiving (at least in the United States), and then continue to plummet downward through the end of December, and then slowly (pace varies from firm to firm) come back up to pre-holiday ranges in January.

Not only is timing of concern for interpretation purposes (when benchmarks are collected), but also it seems that very little is known about the “high performance” benchmark samples. Who claims the firms in these samples are high performers, and for how long have they been higher performers? Were they high performers at the time of the survey and not today?

Lastly, how are the averages calculated? Is the benchmark data average calculated by averaging all the company averages or by taking all the employees in all the high performing companies and then averaging all of those scores? If you do the latter, then one company with more employees than the others will dominate the sample. This type of benchmark sample could look much like my Boulder, Colorado compensation sample; one firm (with particularly high or low scores) may be dominating the data.

Understanding the Data

Heavy reliance on employee survey benchmark data is risky if you do not have enough information about the benchmark data and how it is created.

But, if you cannot rely on employee survey benchmarks, then what alternatives do you have for understanding if your employee survey score data is good or bad? Let me offer some options.

1. Focus on your own internal trend data rather than external benchmark data. Collect data frequently enough to understand if your own scores are going up or down, and collect enough comment data to be able to explain the trends.

2. If you want to compare your scores to those of other firms, only choose benchmark data collected at the same point in time when you collected your survey data.

3. Ask lots of questions about the sample that your employee survey scores are being benchmarked against. What firms are in the sample? When was the data collected? How are averages calculated? Keep asking questions until you really understand the numbers you are using as comparisons.

4. Benchmark within your own firm. Find centers of excellence by searching for subgroups that are higher than others and that have low variance within the group (low variance means most everyone who took the survey scored high versus having a few high scores artificially inflate the data).

It is up to the users of survey data to hold their survey providers accountable and make sure they are provided with accurate, real-time comparisons. If you do not adequately understand the basics of benchmarking — which include thoroughly knowing the benchmark data — you could be leading your organization down a path of poor decision-making.

Changes in Data

We can’t control everything. When I think back to my early consulting job and advising the start-up firm not to pay above an already inflated compen-
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Actionable Data Is Key

Benchmarking is not the magic answer. However, translating data into action through a very comprehensive understanding of your data, using multiple ways to analyze and compare your data and then trending your data — all to create dialogue around results — does lead to the type of interaction that is able to directly impact long-term competitiveness and the ultimate success of you and your organization.

About the Author

Theresa M. Welbourne, Ph.D., is the founder, president, and CEO of eePulse Inc., adjunct professor of executive education at the University of Michigan Business School and editor-in-chief for Human Resource Management Journal. As CEO of eePulse Inc., she leads an organization that delivers Web-based leadership tools and research for continuous improvement and change management. For additional information, visit www.eepulse.com. As an adjunct professor with executive education at the Michigan Business School, she works with the team of world-class educators and researchers renowned for their skill in creating and integrating knowledge with practical application. For additional information, contact executive education at the Michigan Business School at um.exec.ed@umich.edu.

Technology and Data

Perhaps more importantly, technology has helped provide us with other choices. Obtaining trend data, rather than point-in-time data, is possible today only because we have excellent technology for data collection, analysis, and sharing of results. For example, I am working with a consortium of universities and companies that are setting up a project doing what we call Trendmarking™ — quarterly data collection from leaders in multiple firms. The data will be trended, and we will provide instant benchmarks (trendmarks) to all participants. This type of instant trending of benchmarks could not have been done when we all used paper and pencil surveys, but with the technology we have at our fingertips, with the access managers and employees have to their own e-mail, portals, and with PCs, much more is possible. With the ability to share data instantly and globally, the questions about quality of data can be answered on demand.