

How to Approach Peer Groups below the C-Suite

Creating market comparator groups for non-executive employees usually involves different steps than executive peer groups, but many companies don't have a good process in place.

Most boards spend a good deal of time thinking through their approach to executive peer groups and adjusting them each year. However, when it comes to creating peer groups—or market comparator groups, as we refer to them for non-executive employees—many companies use an ad hoc approach. Some organizations may use the same peer groups for executives and apply them for benchmarking purposes to their non-executive population. The challenge with this approach is that the market for recruiting employees is much larger for most job positions than the executive function and, therefore, needs to be a separate exercise from the executive peer group. On the other end of the spectrum are companies that create very specialized comparator groups that account for size, region, development stage, etc. In doing so, they can overcomplicate their approach and limit their view of the talent market for certain job positions.

Determining the labor market is not the same for each organization; it's a multi-faceted process that requires a strategic approach based on each company's unique situation. Here are our tips to keep in mind as you think about your own approach to creating market comparator groups for non-executive employees:

- **Define the talent pool for your general employee population.** As with executive peer groups, you'll want to evaluate which companies many of your employees come from and go to. This may mean including companies that are much larger or smaller than your own organization. While having much larger companies in executive peer groups can inflate the median compensation of your peer group, this is less likely with non-executive comparator groups because pay isn't as connected to company size as it is for the C-suite.
- **Determine the geographic reach for different job functions.** The talent pool for hiring employees in non-executive roles can be very different depending on how hard it is to recruit for a certain role. This is coming up more often in the competitive technology and life sciences job markets; in response, companies are casting wider nets to recruit talent in hard-to-fill positions, such as software engineers, biomedical engineers and data scientists. The pay in regional markets can vary significantly. For example, average employee salaries for technology jobs in Silicon Valley are 111% of the average base salary in Seattle. Meanwhile, base salaries for some technical jobs are rising quickly in emerging technology hubs (for more information see our article, [Austin, Denver Take Lead in New-Hire Salary Growth for Product Development Engineers](#)).

Certain job functions, like support roles or non-technical positions in finance and marketing, can usually be filled locally. However, for jobs that are hard to fill because of limited local talent pools, companies might allow the role to be performed remotely. In these cases, companies may want to create a custom cut of the benchmarking data to determine the competitive range of pay for the position in an outside

market. This doesn't mean a company should automatically increase or lower the target pay for the role if they are hiring from outside the immediate region, but it will give them a more complete picture of how pay might differ for the role in other regions.

We do have a word of caution with the above approach: avoid incorporating occasional practices into your benchmarking practices. While you may recruit a handful of hard-to-fill positions outside of the company's immediate region, if that is not a widespread practice, you wouldn't want to build a geographic bias into your comparator group for all jobs because of one hiring experience.

- **Assess how many comparator groups you might need.** The number of comparator groups a company will want to use for its non-executive employees often depends on how diverse your organization is. If you have one local office of employees performing similar work, then one group will be adequate. If you have very different types of jobs performed in multiple locations— both within the US and around the world— then unique comparator groups for different markets is very relevant.
- **Decide if looking outside your industry makes sense.** Consolidation of certain industries through M&A and industry convergence toward technology has complicated market analyses. Many non-traditional technology companies are now hiring workers with engineering or computer science degrees to build their digital capabilities. As a result, traditional technology companies are competing with general industry firms for certain jobs. Meanwhile, market consolidation in industries like data storage and semiconductors has complicated the process of putting together a market comparator group that ideally consists of at a bare minimum 30 industry peers. In general, the competitive market in technology and life sciences has blurred industry lines.
- **Understand the limitations of your peer group.** While market comparator groups are an invaluable tool in assessing how your organization pays relative to your competitors for talent, peer groups have some limitations, the most critical being the lack of reliability linked to small sample sizes. If the list contains fewer than 30 companies, then individual jobs will have limited amounts of data. If those companies have disparate practices, then the market average may not really reflect a “consensus practice.” This can be resolved by comparing results from the small market comparator group to a larger sample such as “all companies in a revenue category” or “all companies in an industry” to get a sense of just how different the practices are between the two populations. The findings then identify the extent to which judgment, interpolation and blended data from additional cuts of data may be needed to determine the more typical market practice.

For additional questions about non-executive employee benchmarking or to speak with a member of our compensation consulting team, please write to consulting@radford.com.

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