



Navigating Salary Benchmarking:

The legal and ethical considerations

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Abstract



This whitepaper aims to provide a comprehensive overview of how salary benchmarking supports the global marketplace, and the legal and ethical considerations that must be made to allow businesses to make strategic decisions around remuneration.

Due to the increasingly competitive nature of the global employment landscape, salary benchmarking has grown in popularity. Employers understand they must invest in retaining their edge, as well as sufficiently addressing all related legal and ethical matters in order to guarantee the most economically sound path for their business - as well as the best experience for their employees.

Background

Death of the “job for life” model



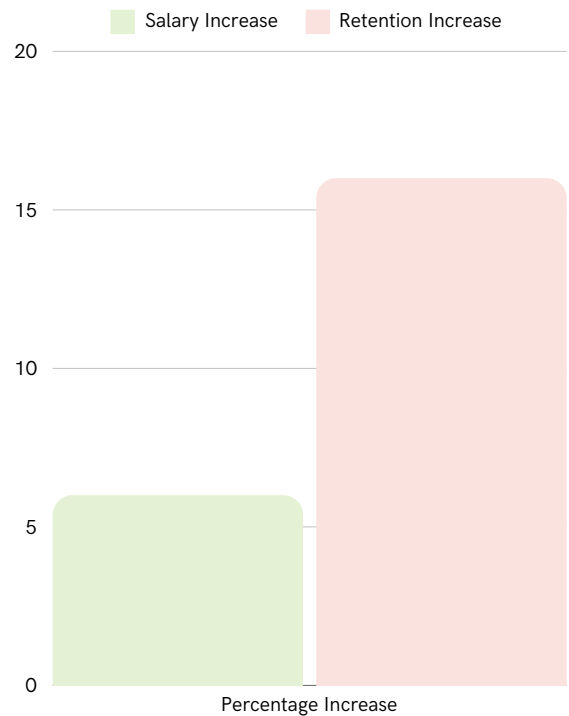
Today's global labour market is entirely different to the market of decades gone by. The 'job for life' model is no longer the norm, with 43% of millennials stating they plan to change jobs within two years,¹ and Generation Z workers predicting they will change careers on average three times throughout their lives, more than any previous generation.² With the rapid digitisation of the job market making it easier than ever to discover new opportunities, today's jobseekers take a data-led approach career progression, assessing potential employer offerings against those of their competitors.

Motivating factors

With the cost of living rising globally – by 7.4% in 2023³ – workers are more likely than ever to prioritise fair compensation over company loyalty. As a result, paying employees higher wages can also be advantageous to employers. The Harvard Business Review found that a rise of 6% in average salary led to an increase in employee retention of 16% over the following year, therefore saving the employer the cost of hiring and training new staff,⁴ which is thought to average between six and nine months of an employee's salary.⁵

While salary increases remain the key driver for workers seeking to change roles – with higher salaries motivating 45% of employees to work harder⁵ – flexibility, work-life balance, feeling valued, and a sense of belonging are all factors taken into account by today's jobseekers.^{6 7}

When approaching today's dynamic global labour market, business leaders must make informed, strategic decisions around remuneration in order to secure top talent. Ensuring that they are offering competitive salaries in line with local averages and expectation is one way to secure a competitive edge in an increasingly competitive, talent-led market.



A 6% pay increase equates to a 16% increase in employee retention



Salary is the key driver for almost half the workforce

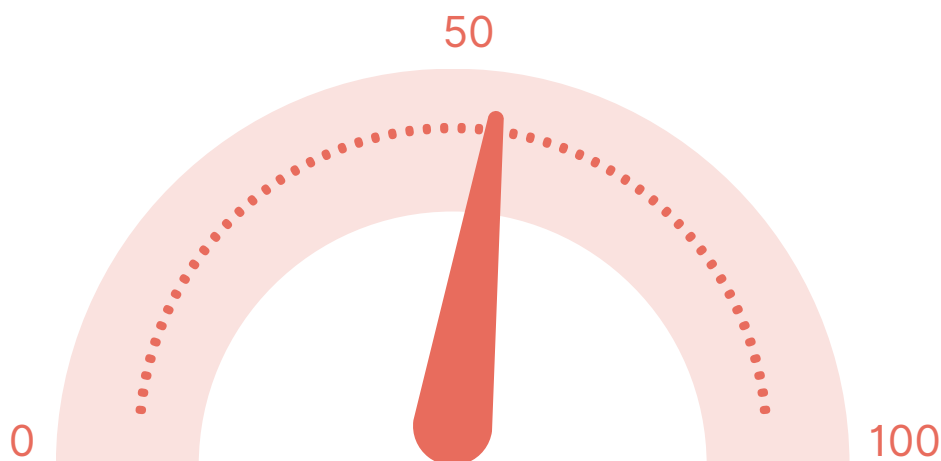
Salary benchmarking support

A growing number of businesses are choosing to avail of salary benchmarking services to address this particular element of global market expansion. In fact, 54% of Harvard Business Review survey respondents say they use the service when hiring employees in new places.⁴ These services, offered by global employment solution providers, involve a team of experts who benchmark remuneration against local averages in the location where a client wishes to employ workers.

A report is then compiled containing an analysis of the local economic landscape, relevant wage brackets, and the legal and ethical considerations that should be taken into account.

Salary benchmarking is commonly undertaken for several reasons. The first is in order to ensure that the client is offering a competitive salary in their desired market and is not unwittingly offering significantly lower or higher salaries than is necessary to secure, maintain, and retain a satisfied workforce.

However, in order for experts to determine the appropriate salary recommendation, there are a number of legal and ethical factors which must be considered.



54% of Harvard Business Review survey respondents say they use the service when hiring employees in new places

Assessing legal considerations

Minimum wage vs. cost of living

Salary benchmarking will always recommend the payment of a living wage, which is not always the same as a country's minimum wage. Assessing the minimum wage in a particular place versus the cost of living there is crucial when assessing appropriate payment.

An example of this can be seen in Cyprus, where the minimum wage is €1000 per month, while the average rent in cities such as Paralimni is €1200 per month.⁸



A comparable situation can be seen in the Republic of Ireland. Despite the minimum wage undergoing a steady year-on-year increase since 2012 due to the rising cost of living, the current rate of €12.70 per hour,⁹ when compared with the average rent in the capital city of Dublin being well over €2,000,¹⁰ means that an individual earning minimum wage would struggle to afford accommodation in the city. Promoting employee satisfaction and quality of life is key to supporting retention efforts and boosting productivity.

Collective bargaining agreements

Similarly, collective bargaining agreements (CBAs) – contracts between employers and unions representing the employees – are another legal consideration in salary benchmarking.

CBAs are the result of negotiations regarding such details as: the terms and conditions of employment, working conditions, remuneration, hours, leave entitlements, and benefits.¹¹ CBAs play a vital role for businesses, as they are beneficial to both employer and worker, streamlining labour relations, promoting organisational equity and stability, and improving employee morale and retention.¹² CBAs must be considered in the context of salary benchmarking as they are legally binding contracts between organisations and their employees, setting out key details of employment which cannot be deviated from or withdrawn.

Immigration status

The immigration status of the employee must be taken into consideration when benchmarking their salary.

Permits such as the EU Blue Card have salary thresholds which differ from country to country. For example, in order to secure an EU Blue Card in Austria, the employee must be being paid €4,548.00 per month, whereas to secure a Blue Card in Lithuania, the threshold is €1,095 per month.¹³

Therefore, if the organisation is planning on applying for a Blue Card on behalf of the employee, they will need to ensure they are paying a salary that meets or surpasses the salary threshold in the chosen country.



Assessing ethical considerations

DE&I

The main ethical consideration in salary benchmarking is acknowledging and adhering to Diversity, Equity, and Inclusion (DE&I) policies. Doing so is crucial to comprehensive salary benchmarking, which aims to promote equity in the workplace and combat inequity.

In terms of remuneration, a recent report from the World Bank has revealed that nowhere in the world is paying women and men equally, and in reality, the global gender pay gap is far bigger than previously thought.¹⁴ Race also plays a significant role in pay inequity across the world, with an example being the United States, where white women earn, on average, 16% less than their white male counterparts. Meanwhile, Black women and Latinas earn only 64% and 55% respectively of the amount paid to white men, while Native American women are compensated a mere 59 cents for every dollar paid to white men.¹⁵ Further pay inequality is suffered by women with disabilities, with the disparity between salaries paid to non-disabled women and women with disabilities ranging from 8% to 18%.¹⁶

When benchmarking salaries, an employee's gender, race, ability, or identity should never impact the recommended salary, therefore promoting equity across the workforce.

As part of the salary benchmarking process, the team will assess the necessary DE&I policies in order to ensure equity across an organisation's global offices, and between employees of different genders, races, orientation, skillsets, and educational backgrounds.



A timeless tool

By arming organisations with the latest data regarding salary expectations, living costs, CBAs, immigration thresholds, and DE&I considerations, salary benchmarking supports businesses to seamlessly navigate what can be a complicated landscape, and make the best economic, legal, and ethical decisions for themselves and their workforce.

While the data contained in any given report will change over time, the salary benchmarking service continues to grow in popularity and serve a key role in supporting businesses to maintain their competitive edge in an increasingly complex environment, making it a timeless tool and worthwhile investment for businesses on their global journey.

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