

## Using Private and Public Market Data to Set Your Pay Levels

**Private sector salaries are not always higher than public sector**

**Leaving out private sector data may give an incomplete picture of the market**

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Public organizations often struggle with the issue of using private sector data when conducting market comparisons. Many believe it is inappropriate to use private sector data because it would compare apples to oranges, resulting in skewed comparisons. Proponents argue that avoiding private sector data results in an incomplete picture of the market. We believe private sector data can and should be used, although certain precautions must be observed.

Historically, the purpose of conducting market comparisons is to develop approximate salary range midpoints and spreads that reflect an organization's competitive market. Although organizations may use a variety of scope information when selecting market comparison data (e.g. budget size, revenue, industry, # of employees, etc.), the primary goal is to collect data that provides the most representative picture of the market. This is usually where private sector data is ignored. Human resources professionals in public organizations tend to leave out private sector comparisons on the basis that these organizations are too different from the public sector to provide meaningful comparisons. In addition, there is a common belief that private sector jobs always pay more, so market points might become artificially inflated.

In reality, most concerns over using private sector data for public comparisons are unfounded. First, private sector jobs do not always pay more. In fact, depending on the level of the position, private sector jobs might actually pay less than their public counterparts. Conducting compensation studies over the years, we have noticed that the distance between the two markets has been closing. This has been evident in both the custom salary surveys we conduct for our clients, and in a variety of published salary surveys. Second, we need to look beyond base salary when conducting these comparisons. More and more, the difference between private and public sector comparison can be accounted for in terms of benefits. Public organizations tend to offer richer benefits packages than the private sector. When the value of these benefits is included in a market comparison, the data tends to even out.

Leaving the specifics of private and public market comparisons aside, it is important to realize that omitting private sector data provides an incomplete picture of the market. Many jobs, especially those in the lower levels of an organization, are essentially the same between the two markets, resulting in private and public organizations competing for candidates with similar, if not identical, skill sets. So if we fail to include both data sources in our analyses, resulting salary ranges might leave an organization unable

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to compete, whether public or private.

Clearly, private sector data should not be ignored when conducting market comparisons. However, we believe certain considerations and precautions should be taken when conducting analyses. Most important, careful attention should be given to the leveling of private sector jobs when collecting data. Generally speaking, private sector positions tend to offer greater decision-making latitude than their public sector counterparts, often making it necessary to match one or two levels lower in the private sector. This is especially true of upper level jobs.

It is also recommended that private and public sector data be summarized separately until it is determined how to position oneself in relation to the market. Although data may certainly be averaged together, it is frequently helpful to review results reflecting both the inclusion and exclusion of private data. This

course permits experimentation with the data, showing which approach best fits the overall compensation strategy.

We understand how various types of pay delivery systems work in public sector organizations and the strengths and weaknesses of the various approaches. While using private sector data can be effective, it may not be appropriate for all organizations.

For the past 25 years, we have been working with some of the largest and some of the smallest public and private sector organizations throughout the country to review and recommend classification, compensation, job evaluation and performance appraisal systems.

If you would like help determining whether private sector data, or public, or both, should be used in your organization, contact us. We can be reached at 800-383-0976. Press 12 for Jim or 20 for Bruce.