



Energy Insights



BENCHMARK THE ROLE, PAY THE PERSON

Use Market Data to Make Informed Pay Decisions

Posted by Chris Havey on August 22, 2013

Many energy companies are preparing to review market benchmark data in the next few months. When used correctly, market benchmark data provides a valuable tool to help make informed pay decisions, but should not be used without appropriate context.

Below are a few key steps for the effective use of market data.



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Identify the Right Data Source(s)

Balance the pros and cons of various data sources. Proxy data can be provided for a specific list of peers and also can be shown on a company by company basis for the top 5 individuals. For a peer focused industry such as energy, the company by company perspective and ability to focus on true peers makes proxy data a valuable data source for most companies.

With survey data, survey participants may not match the company's preferred peers, and only summarized data for each position can be provided (i.e., no company by company data). However, survey data provides more than just the top 5 individuals and is generally more current than proxy data, with the latter often a year or two old. The relative importance of these factors should influence your company's approach.

Understand the Position Matching

Understand the quality of the benchmark position matches and the key differences between the benchmark match and the role you're benchmarking. Key questions to ask include:

- Is the individual at your company less or more experienced in their role than typical benchmarks?
- Does your individual have more or less responsibility than other benchmarks?
- How does your organization structure differ from the benchmarks? A common example in the energy industry is the impact of a COO position on matches like regional or technical function heads.

Market data reflects similar roles at similar companies, but every company and individual is different. Understanding these differences is vital to interpreting market data.

Allow Flexibility in the Philosophy

Allow flexibility for the Committee to apply judgment. Increasingly, energy companies are moving away from targeting a specified percentile (e.g., 50th percentile) and instead are benchmarking the range of market data (i.e., 25th to 75th percentile) and using other factors to determine where each individual should fall within that range. This allows the Committee to apply effective judgment rather than outsourcing decision-making to market data. This is particularly effective in an industry like energy where there is a wide range of market pay levels.

Consider Other Factors

Consider other individual and company-specific factors in evaluating where the individual should fall relative to the benchmark. These often include:

- Company performance and affordability

- Individual performance and proficiency in role
- Differences between the role in your company and the typical benchmark
- Relative value vs. internal peers and succession potential of the individual
- Past and current compensation for the individual

Determining individual pay levels is an important company decision that should consider a number of inputs. Quality benchmark data is only one of those inputs.

Meridian Comment

Meridian's North American Oil & Gas E&P Survey provides real-time information E&P companies and their Boards need to stay current with continued changes across the industry. Survey results will be available to participants August 26, 2013.
