

The Compensation Handbook

**A State-of-the-Art Guide
to Compensation Strategy and Design**

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Compensation Surveys

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Information sharing—surveys—provides data that can be a cornerstone of your compensation communications efforts. Through participation in and competent analysis of good surveys, your organization can be ensured solid information that will develop credibility, not only with those whose pay is being administered but also with the management who has to foot the bill.

Pay Environment

Compensation surveys are typically designed to examine the external pay levels of positions in a given industry or geographic sector. In fact, recent scholastic enterprises have shown that market-compensation surveys carry more weight in pay-scale determination than do organizationally sensitive job-evaluation schemes. Salary-range midpoints or ranges may also be studied to provide a broader look into an organization's pay policy for a given job.

The Legal Question of Information Sharing

Many people are reasonably concerned with the legality of passing around salary information. You have probably heard of class action suits—such as the *Nine-to-Five* organization v. the *Boston Survey Group*, a coalition of large-area employers—brought for potential area “wage setting” in violation of antitrust laws. In fact, salary surveys are not inherently illegal: even the United States government conducts area wage surveys. Limited information sharing, such as telling a neighboring company what your company’s average wages are for a single position, may seem innocent. However, sharing substantial amounts of information directly with competitors and making decisions based on that data can present problems. Whether true or not, using another company’s specific compensation data to establish salary levels can be perceived as wage setting. For this reason, one of the safest and often most efficient ways to obtain survey data is through a disinterested third party—such as a trade organization, consultant, or survey company—thereby preserving the individual participants’ data confidentiality.

Survey Purposes

In formulating and administering your pay structure, you have several goals: Avoid inappropriate pay expenses—paying too much (or too little) to too many (or too few); be aware of what the bigger (or smaller) organizations are doing, as well as those of your own size in your own part of the country; and keep on top of line-managers’ interests in their particular areas or lines of business. To assist you in meeting those goals, salary surveys should:

1. Help shape and increase the accuracy of management pay decisions.
 - a. Develop market data from which to make and support individual practice and broad-based salary policy recommendations; and
 - b. Develop information on other, broader human resources and operating data for decision making.
2. Give you timely, needed answers to questions about competitive rates.
 - a. Respond to inquiries from management about appropriateness of pay; and
 - b. Respond to outside inquiries from professional sources and counterparts.

3. Provide continuity and consistency of information.
4. Provide a vehicle with which to define and communicate what market and what pay is being compared (for example, base salary only, commissions and other variable pay, total cash compensation, or other combinations, including long-term incentives, perquisites, and benefits).

Defining the Pay Market

The basic idea behind compensation surveys is to answer this question: What is the market paying? A fundamental starting point, critical to sound management decision making, is answering this question for your organization: What is the competitive labor market for this particular group of positions? Certain complexities can cloud the market picture. For example, most medium and large companies don't have one market but several—exempt and nonexempt; local, regional, national, international; functional and/or line-of-business markets; and so forth. Also, some organizations may *think* their market is limited to the company down the street and the bank on the corner. But, whatever your circumstances, define comprehensive markets *before* developing salary structures, and keep abreast of market-data sources and market changes to keep your program current.

Once the market has been defined, the next questions are: What data should I compare? Should I only compare base salary levels or also examine total compensation? What about looking at competitors' mid-point structures or comparing our midpoints to their base salaries? The answers are: Compare everything, show how your organization stands up in each instance, and draw your primary comparisons to complement your organization's business plans and objectives.

Survey Techniques

Several survey techniques exist. *Telephone surveys*, though generally not the most accurate or sophisticated, are probably the most prevalent form of surveying today. In the compensation departments of large companies, rarely a week goes by without another company calling and asking what a particular job is being paid. Often this type of study is of the "short-fuse" variety and is used to support an out-of-the-ordinary, imminent hiring decision. While the personal touch can be helpful in gathering information quickly, telephone surveys often yield marginal

results, forfeiting quality for immediacy; questions are likely to be inconsistently phrased, and answers are likely to be inaccurate. Don't forget that while answers to your questions are important to you, they are rarely of any interest to the person at the other end of the line. In addition, calls often interrupt whatever the person was working on when you called. The data you seek may not be readily available, and you may be getting a "best-guess" response rather than one that is studied and researched.

A second survey technique involves a *mailed questionnaire*. This approach is often used by trade associations, personnel consultants, and survey companies to maximize the size of their databases in a given information area. Compared to the telephone survey, this method achieves far more consistent results, though rarely is this vehicle capable of providing a quick turnaround answer. The mailed questionnaire can be particularly effective when used in conjunction with telephone surveys and/or personal interviews. To solicit participation and show the extent of data required, the questionnaire is mailed to the potential respondent. The survey questionnaire serves as a recording instrument, increases the chances of collecting consistent data, and gives the prospective respondent the opportunity to complete it at his or her convenience. At a specified time, data is returned to you or you contact the participant, who has had time to complete the survey. The data can be collected and qualified over the phone or in person.

Personal interviews provide, perhaps, the best opportunity to obtain accurate survey data. During an on-site visit, the surveyor can probe for qualifying or disqualifying information on position comparability, check the appropriateness of components being collected, and even alter the focus of survey questions and data being sought. The time and travel expense for the surveying company and for the companies whose data is being solicited is a limitation with this survey approach. But for insight into the broader environment and for clarification of finer points (as opposed to just the numbers), the personal interview gives the best results.

Survey Scope

The scope of surveys varies significantly. Many are limited to average salary information on a single job. Others, such as job-family and line-of-business surveys, may include more data on a given position or related group of positions, such as an examination of an entire accounting department's positions and compensation levels. Job-family surveys can provide an excellent view of compensation within a particular field or line of business, but participant lists are often inconsistent from family

to family, making an integrated analysis of a specific group of companies difficult. Base salaries are collected in some studies; others, such as non-cash surveys, run a more complete gamut, including employee expense, staffing levels, total cash, long-term incentives, and benefits.

Finally, *benchmark surveys* include key industry jobs common to most organizations. A good benchmark survey will include higher and lower levels, and multi- and single-incumbent positions representing all major functions of an organization. Because the survey's participant base is constant across a whole range of jobs, benchmark surveys give their users a framework for comparison, not just among individual jobs but among job families. Scope measures, such as number of employees managed, sales volume, budget size, and the like, are a means to determine the relationship between pay and magnitude of responsibility. The competent practitioner will collect data from all of these sources, assess the data's value, and use it appropriately.

Quantity and quality of information, as well as cost, can vary significantly. Some of the most common surveys and the results you can expect from them are:

- **Irregular survey requests from counterparts:** Costs incurred as a participant in surveys of a limited scope are typically zero, although protocol warrants the return of favors granted. If they give you information today, expect to give them information tomorrow. Output? Unless you are concerned enough to ask "What's everybody else paying?" expect no information on the subject.
- **Group or association (club) surveys:** Most often, other than club or association dues and perhaps a small charge to offset processing costs and materials, no costs accrue here either. The survey instrument is usually developed by a committee, completed by the membership, and forwarded to a delegated member of the group or the association headquarters for collection and production. Your time and interests are the chief concerns. Depending on how tight or small the club is, your participation may be solicited but not required. A printed report with your data included in the averages is the typical output.
Groups concerned about the issues of legality and ego regarding direct information sharing with contemporaries often hire a consultant or survey company to serve as the "back room" for data collection, processing, and publication needs. When third party resources are employed, some costs may be expected if you want a copy of the survey results, though often the group or association will subsidize the study as a benefit of membership.
- **One-time, custom surveys:** These are often conducted by consultants engaged by you or a competitor in your industry or labor market to

develop particular market data for specific purposes. For example, custom surveys can be part of job-evaluation and/or salary-structure program development. If you commission them, you can expect to receive (and pay for) very precise data, data that may be difficult to recreate or carry on from year to year. If you are a selected participant, expect a complimentary copy of the results with your data included in the averages.

- Third party annual surveys (consultants): These studies serve a host of interests and virtually cover the gamut of compensation information. Relative to custom surveys, annual consultant-conducted surveys are less expensive. The consultants' objectives are to make an impression as a competent consultant and to research speeches and articles as well as background and comparative data for the next year's consulting reports. Profit is rarely a concern. Expect output to be printed, although you can always buy a "special cut" of the data if you are really interested.
- Third party annual surveys (survey companies): Most often, these surveys cover certain functional areas (such as data processing or accounting positions) or levels of management (such as middle management, supervisory level, and so forth). Some concentrate on particular industries, such as financial services, health care, or advertising. Some combine functional areas and management levels to give a broad-based study with depth in a number of lines of business. The companies that administer these surveys are in business to make a profit by selling information to participants and other interested parties.

Data Displays and Terminology

Surveys appear in myriad forms and formats. Some reports will extensively slice and dice the data provided; some adopt a minimalist stance. A good survey will return some information on everything collected consistent with the quality and quantity of data received. Remember though, the underlying value of a survey is not in the numbers it presents but in the answers you are able to derive from its use.

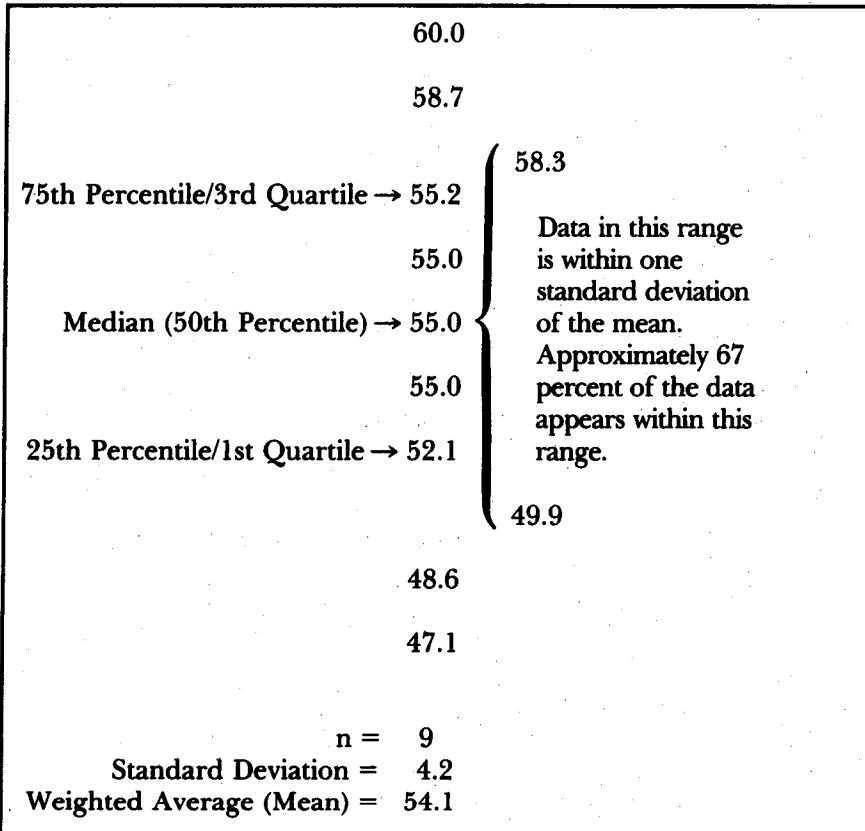


Figure 7-1. Array.

Table 7-1. Frequency Distribution of Figure 7-1

Range	Frequency
45.0-47.9	1
48.0-50.9	1
51.0-53.9	1
54.0-56.9	4
57.0-59.9	1
60.0-62.9	1

Basically, most data is presented in one of three fashions: tabular (numeric) displays, graphic (visual) displays, or regression analysis (containing formulas and chart lines which project compensation levels).

Tabular Displays

Tabular displays (see Figure 7-1 and Table 7-1) include arrays, statistical reference points, and frequency distributions.

Arrays. Arrays are high-to-low listings of all data collected in a given category. Arrays allow the analyst to inspect each data point reported and to see how the data distributes through the range.

Statistical Reference Points

Weighted average: Also called the arithmetic mean, the weighted average is the sum of all salaries (or other compensation values) divided by the number of incumbents reported. For example, the \$47,000 weighted average salary for a production manager is based on 88 salaries (reported by 23 companies). The weighted average is the best indicator of the real market for a given survey position.

Simple average: The simple average is the sum of the averages for each participating company divided by the number of companies participating. For example, the \$50,000 average midpoint for a production manager is based on 23 companies' average midpoints (reported on 88 incumbents). The simple average can be used to compare company policy on, for example, midpoint levels.

Standard deviation: The standard deviation is a number that, if added to and subtracted from the mean in a normal distribution, yields the middle two-thirds of the observations (the data within one standard deviation of the mean).

Median: Also called the 50th percentile/5th decile/2nd quartile, and so forth, the median is the middle of all the data points reported. Focus on the median when data is erratically distributed, especially when you have a small sample.

Quartiles, percentiles, and so forth: These refer to locations in an array below which a certain portion of the data lies. The 75th percentile, or 3rd quartile, is that point below which 75 percent (3/4) of the data points are found. Some analysts like to look at the data between the 1st and 3rd quartiles instead of using the standard deviation. This approach gives them the middle 50 percent instead of the middle 66.7

percent of the data viewed when using standard deviations.

N: This refers to the number of observations of data (data points) in a given sample.

Frequency Distributions. These are often used in lieu of arrays if presenting individual data points strains the confidentiality concerns of the participants. Table 7-1 shows how many times a salary is reported within a certain range of salaries; actual salaries are not shown.

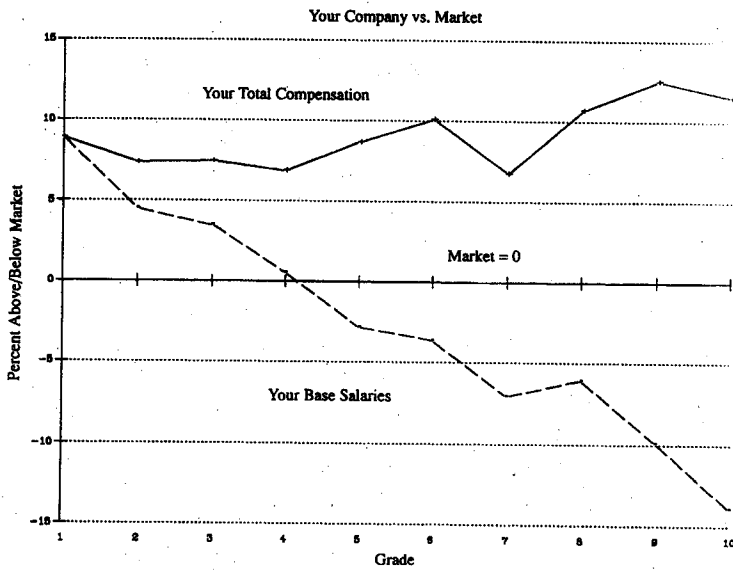
Graphic Displays

Graphic displays include a multitude of charts (line, pie, bar, and so forth) that can be used effectively in presenting data, especially to top management, when the big picture is more desirable than all the detail (see Figure 7-2).

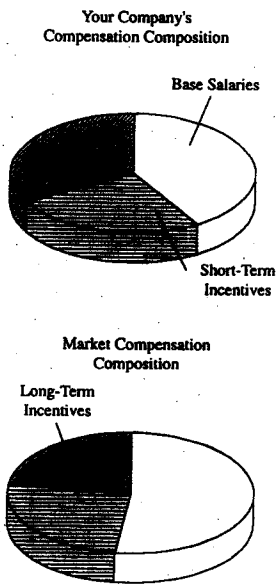
Regression Analysis

Regression analysis (see Figure 7-3) is a powerful form of data presentation that relates two or more data elements and shows by formulas and charts the central data tendencies. Regressions project where, based on one measure (such as company sales), another measure (such as total cash compensation) will be found. Regression analysis correlates the reliability of the information to its dispersal around the line of central tendency. Regression charts often use logarithms because the range of data covered can be so great and because the formulas often are more accurate when the data is so transformed. A few words of caution: Regression analysis infers that if the one condition exists, then the other exists, and when looking at a chart, the eye and mind can lead the untrained observer to conclusions that may or may not be valid. The assumption that you should pay your CEO a base salary of \$416,483 because your company has \$10 billion in assets and because the regression formula says so is no more valid than if you were to conclude that you should pay \$416,483 because that's the average salary of your peer group.

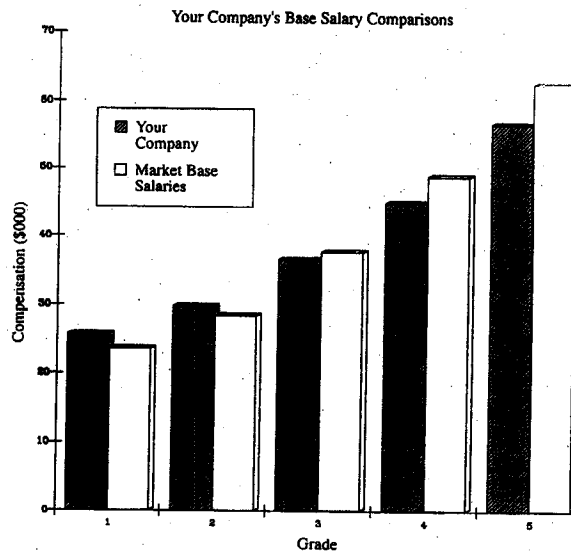
Regardless of format, "above average" does not equal "overpaid"; "below average" does not equal "underpaid." "Average" is not necessarily the proper pay posture for your organization versus your market. Remember the pay environment in which you operate: Performance, internal organizational values, and other issues come to bear on what's right for you. If your compensation policy is to pay at the 75th percentile, you may consider someone at the average to be underpaid.



(a)



(b)



(c)

Figure 7-2. Graphic displays for use in presenting data: (a) line chart, (b) pie chart, and (c) bar graph.

1988 Cole Survey — CEO Regression Analysis
April Base Salary vs. Assets

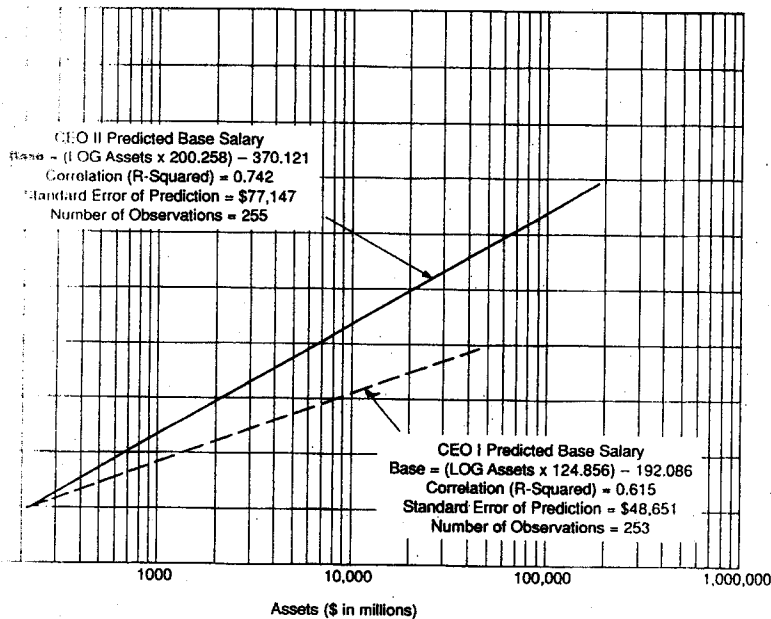


Figure 7-3. Regression analysis.

How to Use a Survey

Without exercising caution, those responsible for providing compensation recommendations can fall into one of two categories: (1) those who use every bit of survey data available without regard to its validity and (2) those who fail to fully exploit the data sources at their disposal. The following paragraphs give you some pointers on what constitutes worthwhile information and how to use the data. (In-depth quantitative analysis and methods of developing salary structures from survey data are not treated here.) The effective practitioner assesses a survey's reliability and the efficacy of the data before incorporating the information into a thought process; all survey numbers may not be as meaningful as you would like them to be. Because people are people and because organizations differ so widely in the way jobs and people in them relate to each other, data quality can vary markedly and should be checked before deciding to base one of your management decisions on it.

Understand that at the foundation of all surveys is the need to compare similarities, not differences. The surveyor tries to identify areas of similarity and jobs that are consistent from year to year and to include

the same companies annually. The hope is that the individuals submitting the data follow directions. Unless the survey participants see how their jobs and the surveyed jobs are alike, little data will be forthcoming. When the survey results are published, that is the time to ask two questions, in this order: (1) How can I be sure that the data is correct? and (2) How similar is our job to the market comparison position?

You can feel comfortable that the data is correct by following a few guidelines. Choose annual survey sources that contain the majority of the positions and competitors in which your top management is chiefly interested. Don't shortchange yourself or your organization by getting only free survey information from recruiters (with their own interests to cultivate) or from magazine articles. Survey costs represent only a fraction of the payroll costs being administered that use the information the surveys generate. In short, good surveys can be a real investment.

To begin, participate in a quality, omnibus benchmark survey as a fundamental data source. This allows you to see how all the major job areas and functions relate to each other, drawing on a relatively consistent set of organizations and data preparers. Augment your chief data source with other data and other surveys; don't limit yourself to one source of information. Also, don't overlook the opportunity to compare compensation data from different sources. After all, surveying is a comparative process. Increasing the number and variety of weapons in your information arsenal increases your coverage and understanding of positions, organizations, and other industries.

So, what if you've taken these steps and the numbers don't agree or if you have only one source? How do you know that the data is reliable? You can assess the number of data points. If only a small, unrepresentative sample appears on a given position, you should consider devaluing its importance in your structure development or not using the information at all. The more tightly packed the data distribution is, the more confident you can feel that the comparison is a valid one. Realize, however, that aberrations are common in compensation. One organization will buy talent to use in a start-up or turnaround situation, and the individual's pay will be out of line with the size or profitability of the unit managed. Another organization will pay an individual very high or very low total compensation because of performance. Rare is the survey that can capture the relationship between pay and targeted, actual performance, except when viewing top management compensation in light of corporate performance.

In addition, rates for positions in the same job family should relate to each other. Case I (Table 7-2) shows a reasonable salary progression from entry to junior level (\$7,300 difference), from junior level to medium level (\$11,000 difference), and from medium level to senior level

Table 7-2. Salary Progression by Position

	Number	Case I average salary	Case II average salary
Senior-level position	12	\$57,000	\$57,000
Medium-level position	15	40,700	40,700
Junior-level position	2	29,700	37,900
Entry-level position	27	22,400	22,400

(\$16,300 difference). Although the junior position is sparsely populated, its salary level seems plausible, given the surrounding job-family data. In Case II, however, the data is skewed so that the junior-level job is \$15,500 higher than the entry-level job, and just \$2800 below the medium-level position. Therefore, data about salary levels in Case II is not as reliable as that presented in Case I.

If your survey source covers a broad spectrum of positions—upper- and lower-management levels, staff and line functions, multi- and single-incumbent positions—most of the position pay relationships should be consistent with the compensation program of your organization. Most companies try to have overall pay practices within plus or minus 10 percent of “their market.” Be cautious of data skewed by one or two large companies weighting much of the data upward or downward. However, before discounting data affected by such circumstances, consider the following: If the job being surveyed is teller, for example, and one company employs 60 percent of the tellers in the state, shouldn't a pay decision on teller positions be heavily influenced by the pay average that includes the one large company?

The participant sample should also represent your industry or labor market. Then, regardless of how odd pieces of data appear in relation to your own, if all of your company's direct and indirect competitors are submitting data, you may have to admit that *you* are out of line with the overall market. On a similar theme, realize that the more consistent the sample of participants is from year to year and the better the survey covers your competitors, the greater the survey's value to you. Finally, the survey should describe positions that correspond closely to those in your organization so that you feel confident using the results.

Getting the Most out of Your Survey Efforts and Dollars

Assuming that you are the individual responsible for using salary surveys to develop compensation programs:

Start by creating a survey library. Set aside a file, a file drawer, a diskette, a closet, or a shelf for all of your organization's survey data. Alert others in your organization to forward all surveys and requests for survey participation to you so you can respond to them most efficiently.

Choose your surveys. Limited resources and day-to-day work requirements often preclude participation in every survey in which a company is asked to participate. You must balance your current needs, your future needs, and the ability to get what you want from others. In other words, participate not only in those studies from which you get information but also in those that your competitors need to satisfy their information demands. Unless you help them get their data, you may well not get theirs when you need it.

Use the data you have. Take the time to examine each survey in your library. Only by using the data you have will you benefit from the investment of time and money you expended to procure the data in the first place. Categorize surveys and their data by position, or family type, and by year. Don't retire a survey until you have its replacement; even a three-year-old study of a specialized, infrequently surveyed job stream can be useful if updated by prevailing salary-increase rates.

Consolidate your data onto a spreadsheet. Surveys are often consulted many times each month to respond to specific questions from a variety of interested parties. Some practitioners consolidate qualified position data from multiple survey sources onto a single spreadsheet—either on analysis paper or on a personal computer—for more convenient consultation. By arranging all of your data this way, you will have the best possible view of your organization's overall competitive pay markets and you will save time and effort during your annual compensation planning and structure review.

Derive a single answer from each set of numbers presented in a survey. If you consolidate data from multiple survey sources or have several views of the data presented in one source, you have a decision to make: Of the data available, of the different numbers purporting to be "the market," what is the single number that best represents "the market" for your organization? Some practitioners simply average all the data available from each source, throwing out odd data. Some feel that the data from one source is more valuable than that from others and weigh that data more heavily. (For example, one source will provide 50 percent of the answer and the second and third sources will supply 25 percent each.)

Answer all survey questions to the best of your ability. The survey designer is responsible for requesting data that are relevant to the survey output. Assume that all data have value in the quality of the results and that without certain data from you the survey will be delayed or reduced in value to you and to others. In other words, share requested information to the best of your ability. After all, that's what you expect of others. Remember, as no two companies are alike, no two sets of information needs are identical. Don't be an informational black hole.

As you develop your data, two criteria should guide the way. First, be realistic. Find your market answer first, and then describe how your situation differs. You and others will find many reasons why your organization's situation is different from the market and why, therefore, your incumbent's salary level is too high, too low, or just right. Let the market give you an answer first, then decide whether or not you like the answer. Don't become obsessed with finding matches and survey data on all positions. Remember organizational differences. A good analyst can determine three reference points relative to an undefined or dataless position: one surveyed position obviously higher in your organizational hierarchy, one obviously lower, and one perceived to be of a similar job value.

Second, be creative. While some organizations and managers will require you to produce information in a certain format, don't allow your thinking to stop there. Compensation information is like a bolt of cloth—you should see patterns of numbers within a function, from function to function, and across the entire organization. You should notice the different hues and textures from area to area, division to division. Then, from this combination of highs and lows and positive and negative variances, you should be able to fashion your organization's pay garment.

How to Conduct Your Own Survey

The preliminary thought process is critical in a good survey of any sort. You must know what the questions are and how you plan to present the answers before you involve anyone else. Only then should you concern yourself with targeting the appropriate markets, soliciting and securing their participation, ensuring good data, and presenting the data in a

meaningful manner. Keep in mind four fundamentals in the business of surveying: People gain by getting information; people gain nothing by giving information; people are the companies with whom you must deal; and people have their own agendas that are different from yours.

With the fundamentals in mind, start by choosing a survey type that is appropriate to your need for speed and comprehensiveness. Different circumstances may dictate different approaches. You may have extra time available just for this survey, or you may need to conserve your energies and resources (data processing support, costs, and so forth). An outside agent may be more cost-effective. Always have a report format in mind when you conduct a survey—that is, know specifically what information you are seeking. This way, you won't miss asking for a particular piece of important information. Too often, especially with phone surveys, follow-up calls have to be made to fill in additional data elements. Always construct a questionnaire, even if you're collecting data on just one position from just a few companies. A questionnaire helps you to ask the same questions of all participants, and it serves as a record of responses. Keep your survey simple and focused on the final product. Don't collect extraneous data that is irrelevant and takes extra time to input and analyze.

Keep your survey brief or use a check-the-box format. Asking for narrative answers reduces the ability and interest of the potential participants to input data. Few executives and even fewer organizations are particularly altruistic. They want to get something for their time and energy. As a minimum, always plan to give your survey participants a copy of the results of the study. Try to fashion your survey so that it answers your questions and provides value to others as well. For example, add a job or two, ask for another component, or change your description a bit. Finally, ensure that you have enough "hooks" in your survey to allow you to merge it into a larger body of survey data. In other words, collect enough comprehensive data to allow you to compare the results to other data you have received in this particular area, as well as broader market or evaluation data you have.

Where to Find Survey Data

Survey sources are growing, and the field is becoming very competitive, so the following list is by no means exhaustive. Consider this a starting point in your quest for information. All of the major compensation and/or human-resources consulting firms have surveys conducted on a regular or semiregular basis—The Wyatt Co., and its survey units, Cole Surveys and ECS; Hay Group Inc.; Towers, Perrin, Forster & Crosby;

Mercer-Meidinger-Hansen; Hewitt Associates; to name a few. The major accounting firms—KPMG Peat Marwick; Deloitte & Touche; Ernst & Young; and so forth—also have survey interests.

The United States government is one of the largest surveyors in the country. Contact the Bureau of Labor Statistics (BLS), Wage and Hour Division of the U.S. Department of Labor. Most major cities have BLS offices. Check your telephone book under the federal government listings. Your state may also produce survey data of some value.

In addition, many local or regional personnel and compensation associations conduct surveys. Trade organizations and local consultants are other good sources. Also contact the American Compensation Association, Scottsdale, Ariz.

Every few years Dr. Steven Langer of Abbott, Langer & Associates, Crete, Ill., produces a comprehensive list of surveys in *Available Pay Survey Reports: An Annotated Bibliography*. This is an excellent resource.