

Compensation Metrics Cheat Sheet

How to use data to overcome your most pressing C&B challenges



Why compensation metrics matter

Organizations worldwide are facing an unprecedented talent crisis.

[77% of employers globally](#) are struggling to fill roles. According to [Korn Ferry](#), by 2030, the talent shortage can cost companies \$8.5 trillion in unrealized annual revenue.

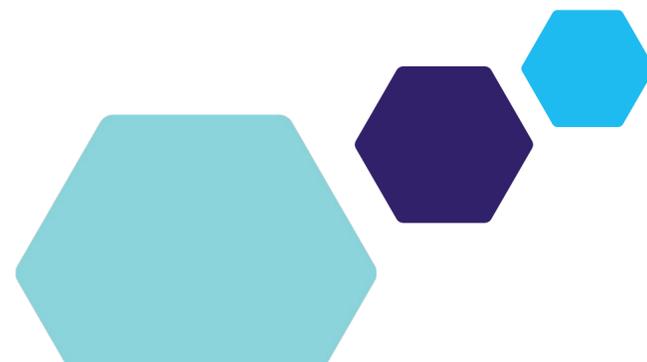
Having an effective compensation strategy is one of the keys to attract and retain the best talent. This means you need to track compensation metrics to understand what is and isn't working, and how you can help your organization remain competitive in the war for talent.

How to use this guide

In this guide, we will explain how to use 12 key compensation metrics and visualize compensation metrics in Excel.

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1. Target percentile

Formula

$$\text{Target Percentile} = \text{Market Rate} \times (1 \mp \text{Policy Percent})$$

What it means

Your company's target percentile is where you pay employees relative to market rates, expressed as a percentile.

If your policy is to meet the market, your target percentile will be 50. Anything over the 50th percentile is leading the market. Targets below the 50th percentile are lagging the market.

Example

If your policy is to pay twenty percent above the market rate, your target percentile is 20 percent above the 50th percentile. It is the 60th percentile, not the 70th percentile (50+20).

In this case, the formula will be applied as followed:

$$50 \times (1+20\%) = 60$$



2. Range midpoint

Formula

$$\text{Midpoint} = \text{Market Rate} \times (1 + \text{Policy Percentage})$$

What it means

This is the exact middle of your range, equally distanced from the range minimum and range maximum, and aligned to the market value of the job.

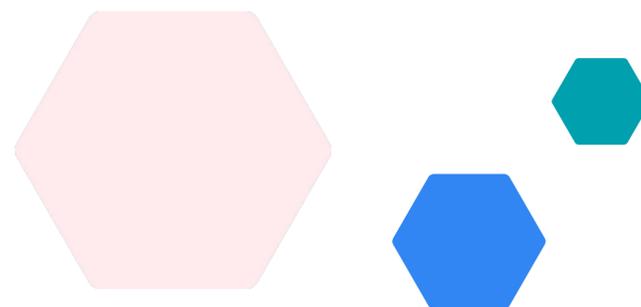
Example

If your goal is to lead the market by 30% when the market rate is \$46,000, your range midpoint would be:

$$\mathbf{\$46,000 \times (1 + 30\%) = \$59,800}$$

If your goal is to lag the market by 10% when the market rate for a job group is \$46,000, your range midpoint would be:

$$\mathbf{\$46,000 \times (1 - 10\%) = \$41,400}$$



3. Range spread

What it means

The spread or width between the range minimum (e.g., the 25th percentile) and the range maximum (e.g., the 75th percentile).

Example

You do not need to calculate the spread, as this is something that you determine yourself. Do you want it to be 25%, 50%, or 75%? Different jobs would have different spreads. For example, the spreads within an organization can look like this:

- Hourly contract positions: 30%-40%
- Entry to mid-level to managerial positions: 40%-60%
- Executive positions: 60%-70%

Learn more

A thorough compensation analysis provides that data and insights you need for critical decisions relating to salaries and total benefits for employees.

[Read the guide](#)

4. Range minimum

Formula

$$\text{Minimum} = \text{Midpoint} / (1 + (\text{Desired Range Spread} / 2))$$

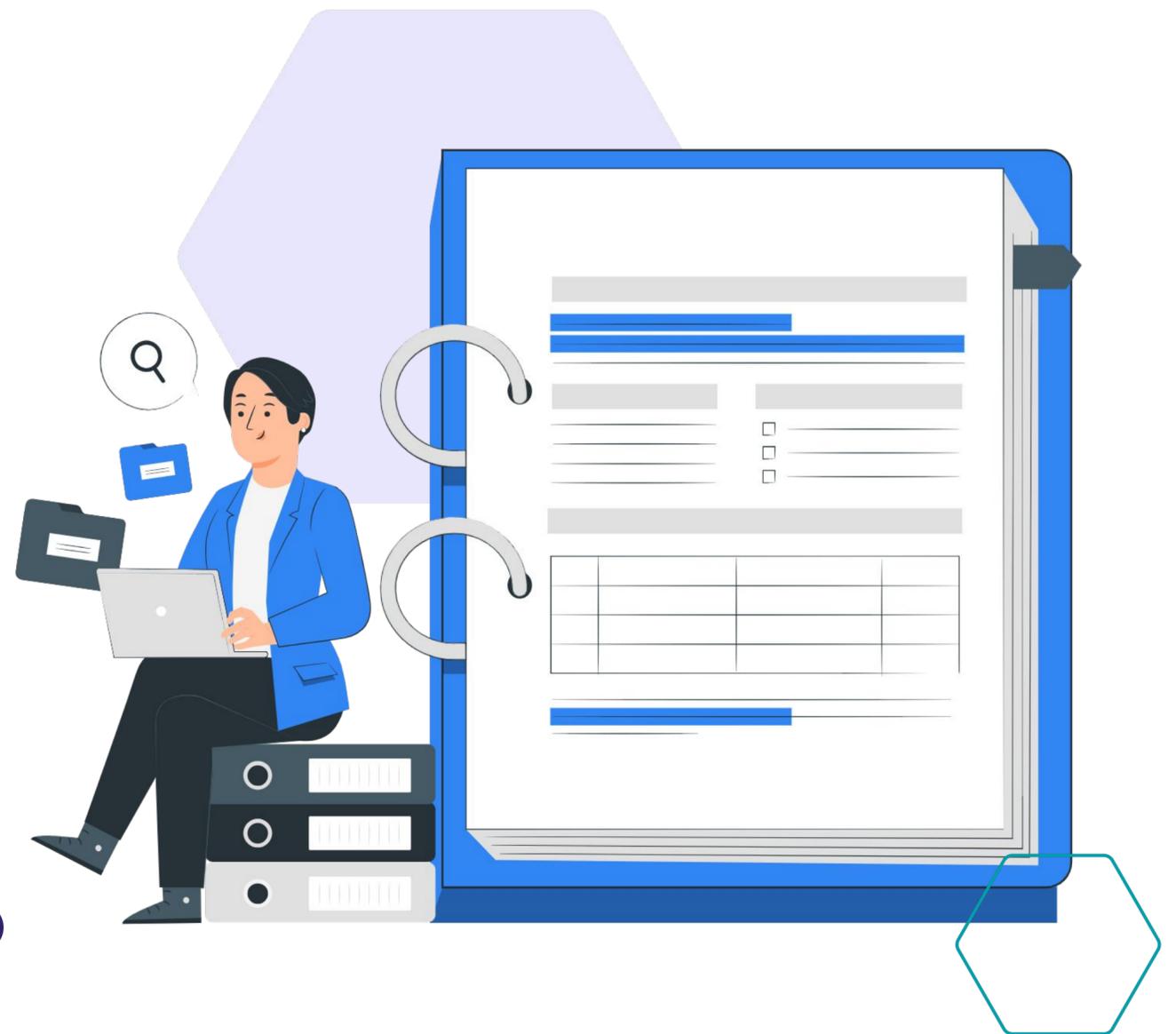
What it means

The minimum is the lowest value in the scale. It is what you would typically offer a new employee.

Example

If your midpoint for a range is \$50,000 and the spread is 40%, the minimum will be:

$$\text{\$50,000} / (1 + (40\% / 2)) = \text{\$41,667 (rounded)}$$



5. Range maximum

Formula

$$\text{Maximum} = \text{Minimum} \times (1 + \text{Desired Range Spread})$$

What it means

The maximum is the highest value in the pay range. This is often what your executives believe they should pay the top talent in your organization.

Example

If the minimum is \$41,667, you can calculate the maximum as follows:

$$\$41,667 \times (1 + 40\%) = \$58,333 \text{ (rounded)}$$



6. Salary differential

Formula

$$\text{Salary Differential} = \frac{(\text{Higher Midpoint} - \text{Lower Midpoint})}{\text{Lower Midpoint}}$$

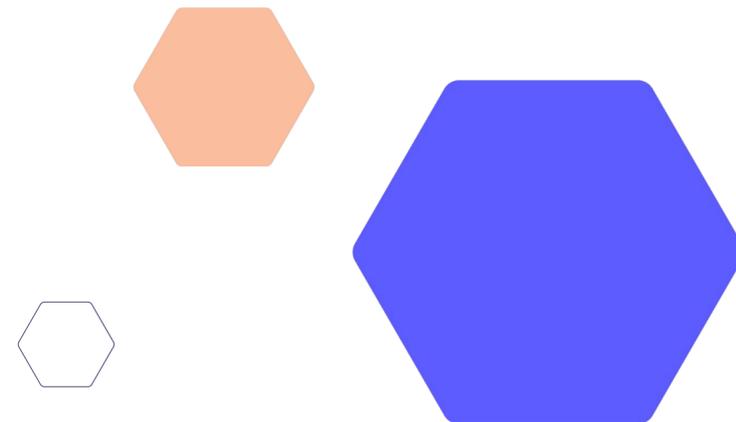
What it means

This metric shows the progression from one job level to another by comparing the two ranges' midpoints.

Example

If the midpoint of the higher job is \$74,000 and the midpoint of the lower position is \$64,000, the salary differential is:

$$(74,000 - 64,000) / 64,000 = 15.63\%$$



Bonus

Using ranges for compensation planning

With established salary ranges, you have the data you need to effectively plan your organization's compensation strategy. Here is an example of what this could look like:



Minimum

The level of work required for this salary range is:

- Learning
- Partially meets job responsibilities



Midpoint

The level of work required for this salary range is:

- Fully competent
- Has mastered all job responsibilities and performs them independently



Maximum

The level of work required for this salary range is:

- Highly experienced and competent
- Valued institutional knowledge
- Exceeds expectations
- Ready for promotion

7. Compensation ratio (compa ratio)

Formula

$$\text{Compa Ratio} = \text{Salary} / \text{Salary Range Midpoint}$$

What it means

The compensation ration (or compa ratio) is a formula designed to compare where an employee's salary stands relative to the midpoint.

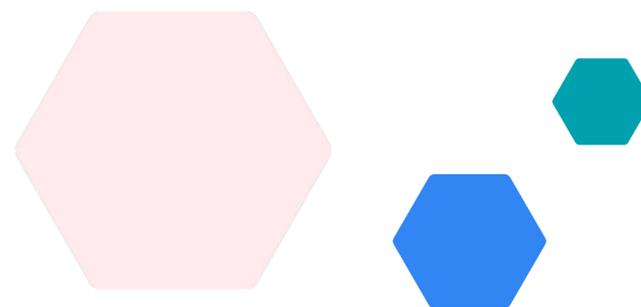
Example

If the midpoint is \$50,000 and the salary is \$45,000, the compa-ratio is:

$$\mathbf{\$45,000 / \$50,000 = 0.9}$$

Compa ratio matrix

For pay management, some organizations use a matrix of performance ratings, compa-ratio, and policy bands. **Turn to the next page for an example** from WorldatWork, the global association of compensation professionals.



7. Compensation ratio (Compa ratio)

Here is a salary increase matrix using the compa ratio approach by WorldatWork. If you want to try this approach at your own company, it's best to have an automated system create the bands for you.

Performance	Compa ratio			
	0.80 - 0.89	0.90 - 0.99	1.00 - 1.09	1.10 - 1.20
Outstanding	7.0 - 8.0 %	6.0 - 7.0 %	5.0 - 6.0 %	4.0 - 5.0 %
Above average	5.0 - 6.0 %	4.0 - 5.0%	3.5 - 4.5 %	3.0 - 4.0 %
Average	3.0 - 4.0 %	2.5 - 3.5 %	2.0 - 3.0 %	1.5 - 2.5 %
Below average	1.0 - 2.0 %	1.0 - 1.8 %	0.6 - 1.6 %	0.4 - 1.4 %
Unsatisfactory	0%	0%	0%	0%

8. Salary range penetration

Formula

$$\text{Salary Range Penetration} = \frac{(\text{Salary} - \text{Range Minimum})}{(\text{Range Maximum} - \text{Range Minimum})}$$

What it means

The salary range penetration metric is somewhat similar to the compa ratio. However, this metric looks at a salary in relation to the whole pay range, instead of using a single data point.

Example

If the minimum is \$35,000, the maximum is \$65,000, and the salary is \$45,000, the range penetration is:

$$\frac{(\$45,000 - \$35,000)}{(\$65,000 - \$35,000)} = 33.33\%$$



9. Green circle

Formula

This metric uses the [salary range penetration formula](#).

What it means

The green circle includes employees whose starting pay falls below the minimum and typically have their pay levels increased to the range minimum at the next review cycle.

Employees who are green circled have a salary range penetration of less than zero. In your Excel worksheet, use conditional formatting to change the cell color to green to highlight these employees.

Example

If an employee's salary is \$38,000, the range minimum is \$40,000, and the maximum is \$60,000, the salary range penetration will be less than zero:

$$(\$38,000 - \$40,000) / (\$60,000 - \$40,000) = -0.1 (-10\%)$$



10. Red circle

Formula

This metric uses the [salary range penetration formula](#).

What it means

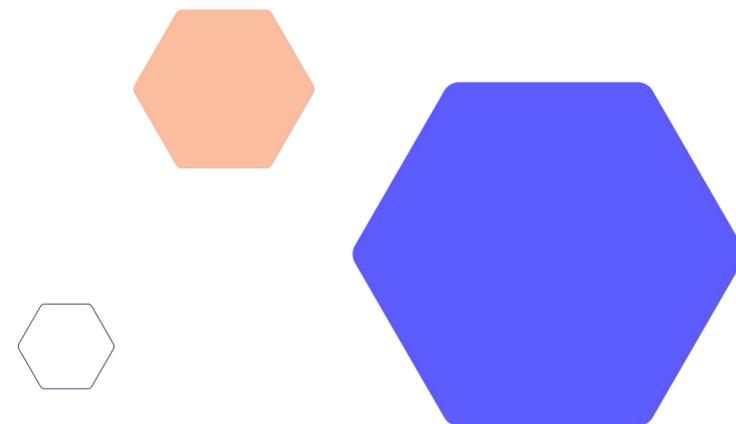
The red circle includes employees whose pay falls above the salary range maximum. They will probably have their pay frozen until their salary once again falls within the range.

Employees who are red circled have a salary range penetration of more than 100%. In your Excel worksheet, use conditional formatting to change the cell color to red to highlight these employees.

Example

If an employee's salary is \$65,000, the minimum is \$40,000, and the maximum is \$60,000, the range penetration will be greater than 100%:

$$(\$65,000 - \$40,000) / (\$60,000 - \$40,000) = 1.3 \text{ (130\%)}$$



11. Market ratio

Formula

Market Ratio = Average Pay Rate /
Market Rate at Your Target Percentile

What it means

The market-ratio metric shows you how close you are paying to your target pay policy. It compares the midpoint of the internal salary range to the market pay rate.

Example

If the market rate is \$50,000, the target percentile is 15 (leading the market by 15%), and the average pay rate in a range is \$60,000, the market-ratio will be:

$$(\$50,000 \times (1+15\%)) = 1.04$$



12. Geographic differentials

What it means

A geographic differential is the percent difference between pay for the same job in two or more locations.

Example

You can calculate geographic differentials based on a benchmark of position salaries and the cost of living for each city and state where your employees work. Typically, this metric is created for differences of approximately 5%.

Benchmarking for HR

Not sure how to get started benchmarking your salaries? Our full guide has all the information you need to get started today.

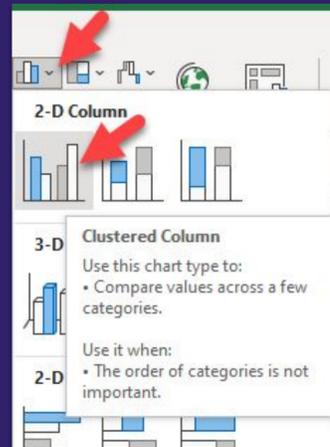
[Get started](#)

Bonus

Creating a salary range chart in Excel

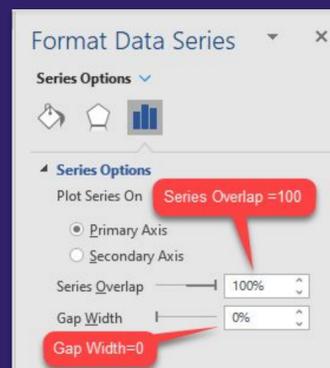
Create a salary range chart

You can visualize your salary ranges in just a few minutes using Excel.



Step 1. Select chart type

Enter your data in Excel. Select the data and select **clustered column chart**.



Step 2. Format the bars

Set the **Series Overlap to 100%** and the **Gap Width to 0%** to create a floating band chart.

Step 3. Finishing touches

1. Add data labels and position them at the inside end of the data point.
2. Format the colors and the font sizes to ensure the chart is visually pleasing and easy to read.
3. Complete the chart title and formatting.



Bonus

Creating a range penetration chart in Excel

Visualize salary range penetration

You can also add range penetration data to your salary range chart in a few steps for a more comprehensive overview.

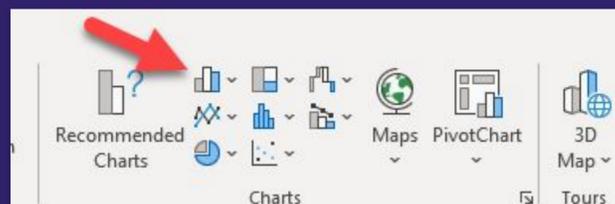
Step 1. Add the data

Add the **average salary** and **market rate** to your data table.

Range	Maximum	Midpoint	Minimum	Average	Market
A	\$49,920	\$42,640	\$35,360	45946.47	\$37,078.26
B	\$57,200	\$48,880	\$40,560	54522.49	\$42,504.35

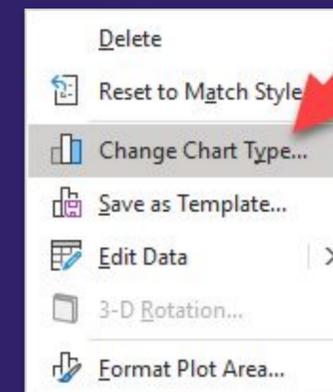
Step 2. Create the chart

Use the data to create a **clustered column chart**.

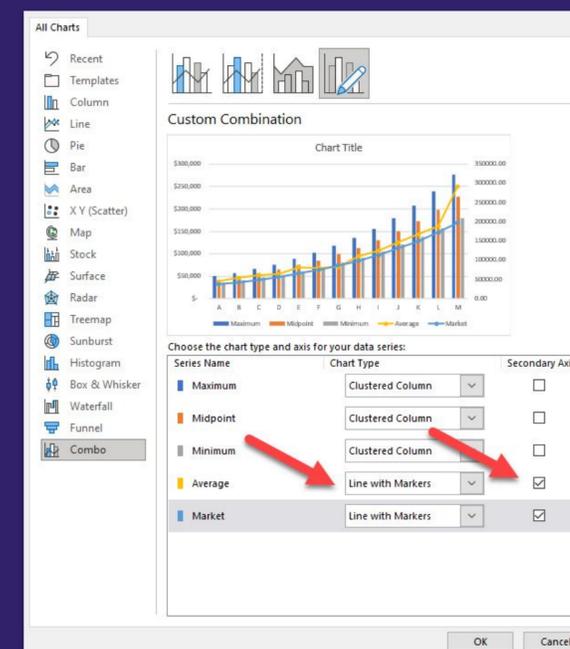


Step 3. Adjust the chart

Right-click on the chart and select **Change chart type**.

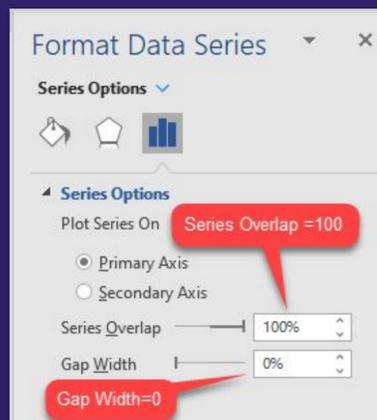


In the menu, change the **Average** and **Market** data series to **Line with Markers**.



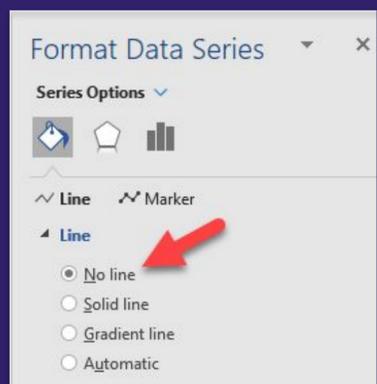
Bonus

Creating a range penetration chart in Excel



Step 4. Format the bars

Set the **Series Overlap** to **100%** and the **Gap Width** to **0%** to create a floating band chart.



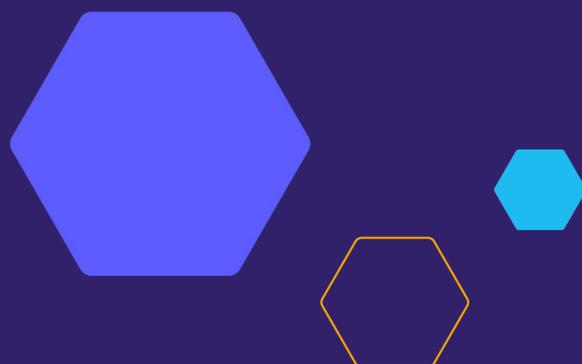
Step 5. Format the lines

Adjust the **Average** and **Market** lines to **No line**.

Step 6. Finishing touches

Your salary range chart is almost finished. All that's left to do is:

1. Format the colors and the font sizes to ensure the chart is visually pleasing and easy to read.
2. Complete the chart title and formatting.



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