Range Penetration; Everything you need to know

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Range penetration is a pay measure that compares an employee's salary to the total pay range for a particular grade. This pay comparison shows how much the employee's compensation has progressed within the pay range. Range penetration also aids in identifying pay raise possibilities for employees.

Employers might use range penetration to see if their pay ranges are too large or too narrow for the company to support. Narrower ranges are better for lower-level jobs when people are just starting and are more likely to be promoted quickly. Wider pay ranges assist in retaining mid- to late-career professionals since they don't have to forego competitive pay raises as they gain experience and skill in their existing roles.

The minimums and maximums of a wage range are used to compute range penetration.

Range penetration = (salary – range minimum) ÷ (range maximum – range minimum)

Example: Ben's annual salary is $100,000. The salary range is $70,000 – $150,000

Range penetration = (100,000 – 70,000) / (150,000 – 70,000)

Range penetration = 30,000/80,000

Range penetration = .375 or 38%

Ben's salary is 38% into his salary range.

Benefits of Salary range penetration

It will make it easier to determine where people fall on the range when considering merit raises. If someone is at the top of the pay scale, start thinking about what it means for their next raise. Will they get promoted to the next level of pay? Will they require a promotion or a change in title?

This is a wonderful moment to ask the employee about their interests and opportunities for advancement within the firm. You don't want the person to be startled that their salary range maximum has been reached.

Furthermore, promoting workers to new titles to obtain the annual raise is not the best strategy. If individuals believe they can be promoted only based on tenure, it will devalue your training and development culture. Make sure you're promoting the right people into the proper roles based on their talents and interests.

Salary range penetration, like company-ratio, is a useful indicator for assessing your company's pay equity. Take a look at where pay for people in similar jobs are decreasing. Start looking into why some are dropping at the top, and others are plummeting at the bottom. You have an equity problem if they have similar backgrounds (experience, education, etc.).

Metrics are useless without analytics, as is always the case. Metrics are only the beginning; analytics will assist you in telling a story. Consider why your metrics are producing those results.

Don't waste time with complicated computations. By combining data from numerous platforms, an HR dashboard will calculate your metrics automatically. You'll be able to jump right to the analytics.

How salary range penetration is connected to diversity and inclusion

In the United States, women earn 81 cents for every dollar earned by men, resulting in a lifetime earnings deficit of over one million dollars.

Many people assume this is because women don't ask for enough, but this isn't the case. Men and women both ask for raises at about the same rate, and women even ask for somewhat more money (31% and 29%), yet women are not only less likely to receive raises, but they are also more likely to be penalized for asking.

Examining differences in wage range penetration rates can typically reveal pay disparities. You'll be able to compare remuneration for individuals in similar roles with similar levels of experience if you undertake frequent compensation audits. If you notice that women or older employees have lower penetration rates than their male counterparts, you'll know your company has a compensation equity issue.

How to enable managers to use pay range penetration

Pay range penetration is an excellent metric to have on hand for your team during the annual compensation cycle, but getting managers to adopt it will take some work:

1. Sort out your salary ranges: It's not enough to have pay ranges; you must update them once or twice a year to ensure that they reflect market rates and your compensation strategy.

2. Calculate range penetration: Using your most recent pay ranges, get the pay range penetration of each employee. Managers will have access to the correct information if you provide this information via your compensation management software or a spreadsheet.

3. Demonstrate how to leverage range penetration with your managers: It's a good idea to include manager training in the planning stage of your compensation cycle. Include a primer on pay range penetration and written recommendations to help managers understand what it means and how to use it.

Conclusion

During your annual compensation cycle, your managers are an essential resource since they can assist you in making better compensation decisions. You must, however, assist them in assisting you. Pay range penetration allows managers to see where each of their direct reports fits inside their salary bands and advocate for where each employee should be placed.

https://thehumancapitalhub.com/articles/range-penetration-everything-you-need-to-know