What is Compa-Ratio

Author: Benjamin Sombi . March 2022

A compa-ratio, also known as a comparative ratio, compares an employee's wage to a certain comparative pay target position internally or externally. . The compa-ratio can be calculated using either an external or internal reference point as a comparison. A compa-ratio, for example, can be determined against certain market reference points such as the market median, average, and 75th percentile. The compa-ratio can also be calculated against an internal reference point in an internal pay structure, usually the salary grade midpoint. The compa-ratio evaluates the relative location of a certain wage compared to a reference point in all circumstances.

In the management of salary and pay in general, the compa-ratio is utilized to give guidance on how far a salary is from a target comparative point. It assists the company in determining the competitiveness of pay for individuals,grades, and any employee category group. The compa-ratio was employed in one study to investigate gender bias in faculty wages. Every compensation expert should be familiar with and use this tool.

In all cases, the compa-ratio is represented as a percentage. A compa-ratio can be anywhere between 80 and 120 percent. You're paying an employee their full market value if the compa-ratio is 100 percent.

Compa Ratio	Analysis
>100	You're paying above market rate
100	You're paying market rate
<100	You're paying below market rate

When you calculate the compa ratio for all employees, you can see if you're giving them competitive compensation. You risk losing top performers to competitors if you pay too little. You risk damaging your bottom line if you pay too much.

How to Work Out the Compa-Ratio

By dividing an employee's compensation by the reference target wage, the compa-ratio is calculated. An internal grade middle point salary or a target market position could be used as the target reference salary.

When computing the compa-ratio against the market, the comparison point of interest should always be a target point, such as the market median. It might alternatively be the grade midpoint when comparing it to an internal pay system. These comparisons are aimed at determining the relative position of your salaries in relationship to the reference point.

Formula for compa-ratio

As previously stated, the compa-ratio formula is as follows:

1. Compa-ratio = Employee's salary/Target market position * 100
2. Compa-ratio = Employee's salary/grade midpoint * 100

This Compa-Ratio Calculator can be used to determine the compa-ratio intended at the grade's midpoint and any of the following market positions (25th, 50th, and 75th percentile). You can evaluate the compa-ratio against any market percentile by using the formula. The target market position can be the 25th percentile, median/ 50th percentile, or 75th percentile in the first calculation. Organizations' pay plans vary; some aim to pay at the median, while others aim for the 75th percentile. When you use the compa-ratio, you're trying to figure out how competitive your salaries are compared to the market per role or grade.

Definitions of compensation

Let's go over the compensation terms needed to grasp the compa-ratio.

In this sense, a salary is a regular payment made to an employee as compensation for services rendered, usually expressed as an annual figure. On the other hand, most companies pay their employees biweekly or monthly.

Bonuses, variable pay, benefits, or any sort of non-salary compensation are not included in the salary, thus the compa-ratio.

Percentile to aim for

Companies establish pay policies based on the current market rate. They determine whether they will meet, lead, or trail the market in this policy.

The target percentile will be 50th if the policy is to meet the market. Anything above the 50th percentile is considered market-leading. Targets that are below the 50%ile fall behind the market.

As a result, the target percentile is a percentage above, below, or equal to the market rate. Market Rate × (1?Policy Percent).

Organizations change their target percentile depending ing on market conditions and competitors' actions to search for talent.

The midpoint of the range

Companies allocate pay ranges to job groups as exemplified by a grade to ensure consistency and equity across jobs, as well as the freedom to plan for market conditions.

For each job family, the organization establishes pay grades and ranges (or bands) with a target percentile as the midpoint, a minimum at a particular percentage below the midpoint, and a maximum above it (usually the same percentage).

A new employee's starting point is usually the range minimum.

What constitutes a reasonable compa- ratio?

The desired market position that the organization aspires to reach is the most important factor in determining an acceptable compa-ration. As previously stated, some businesses aim for a market position near the median, while others aim for the 75th percentile. This compa-ratio targeting is, once again, dependent on the company's overall compensation strategy. The availability and demand of important skills may drive this compensation model. Those companies who compete in highly competitive marketplaces may want to aim for a compa-ratio of more than 100% for their top performers. Too often, there is no universally acceptable ratio. On the other hand, Compa-ratios can be adjusted based on the scarcity of talents in each grade or function.

The acceptable compa ratio is determined by various factors, including the job, the budget, and other workplace benefits. For example, a company that offers first-rate benefits may be able to offset the risk of paying lower salaries than the market average, i.e. compa ratios of less than 1 or 100%. As a corporation uses a sales commission or commission-based wage, the basic pay may be adjusted at a level where the commission ratio is less than 1 or 100 percent compared to non-commission personnel. Companies eager to acquire the top talent, on the other hand, may set pay at compa-ratios of 1 or 100 percent to attract the finest talent.

Compa-ratio when comparing with the market (External)

In practice, most businesses would like to pay more than the market average. As a result, it's assumed that every corporation wants to pay at least a little more than the market average. The target market position with the most references is the market median. If the organization can't afford to pay more than the market median, a low average compa-ratio isn't necessarily a problem. Paying less than the market median, on the other hand, can be pricey. The most prevalent expenditures are those incurred due to a failure to recruit and retain outstanding people. In the long run, this could cost the organization more money. Affordability and sustainability are the most important elements to consider when deciding where to position your company relative to the market median.

Suppose you want to pay at compa-ratios below 100 percent when compared to the market median. In that case, you'll need to develop other creative remuneration tactics to offset the negative effects of paying at compa-ratios below 100 percent.

In the end, lower compensation is more likely to lead to lower employee engagement and retention. It's natural that businesses may not afford higher pay levels and will have to settle with lower pay. Companies must afford and sustain the wage levels they choose to survive. Some businesses may discover that their compa-ratios are lower due to hiring a large number of new university graduates with little or no experience. An innovative way to mitigate possibly significant turnover could be to design a rigorous training and development program. Another option is to guarantee that, in addition to the compensation, other retention efforts are used. A strong supportive atmosphere and enriching jobs are two examples of such techniques. Unfortunately, even the best corporate cultures with exciting perks and benefits could still experience high turnover rates.

When comparing other employees inside the organization, use the compa-ratio (Internal)

Internal pay range compa-ratios should be calculated regularly. It's a great approach to see if the company is sticking to its compensation policy. Assume the strategy is to pay at the midpoint, but the compa-ratios are consistently greater or lower than 1 or 100%. This could signal misalignment between the company's compensation strategy and what is done in practice. Another advantage of measuring compa-ratios versus the internal pay structure, particularly the grade midpoint salary, is that it helps the company to determine whether greater compa-ratios are justified. At the same time, it will allow the organization to assess whether people with lower compa-ratios are deserving of their positions. Individual performance is the only plausible explanation for differences in compa-ratios among employees in the same grade. The organization can manage pay equity by properly assessing internal compa-ratio movements over time. The credibility of the job grading structure is enhanced when no employee is paid below or beyond the appropriate compa –ratio range of 80 percent to 120 percent.

This indicator will also highlight pay equity. Recent campaigns to close the gender and racial pay gaps have brought pay fairness to the forefront, and businesses are being pressured to do so. This can be accomplished by looking at the compa-ratios for employees in similar positions. Equity concerns may arise if compa-ratios differ without rationale among employees working in the same function. This, too, would necessitate further research to determine the source of the contradictions. Finding the source of the wage disparity will allow for the development of remedies

Group compa-ratio

We use the group compa-ratio to determine the difference between practice and policy for an entire organization or group.

Group Compa Ratio = Sum of Actual Pay / Sum of Job Reference Point Rates

The group ratio can be used to design and control your pay budgets. Then you may use it to identify issues with the policy or how managers are putting it into practice.

Variances in compensation for different regions, countries, or locations, differences in duties within a job class, longevity in the job, and experience in previous similar employment, could all contribute to differences in pay.

A lower than typical group compa-ratio, for example, could indicate a shorter duration in the position, which could be attributed to:

- Higher resignations due to economic or financial decisions to forego merit raises,
- Faster promotions due to rapid expansion,
- More internal gig economy transfers.

A higher-than-average group compa ratio could indicate longer tenure due to:

- A lack of promotion opportunities as a result of the organization's transformation from a hierarchical to a flatter structure,
- Progress in keeping but not promoting people who don't have management skills but perform well,
- Market forces that demand higher pay rates.

Pay policy or compensation structure issues, such as:

- Pay ranges that have fallen behind the market,
- Anomalies that have arisen as a result of the implementation of a new pay structure,
- The need to re-evaluate changed positions could all contribute to a high or low group compa ratio.

Group compa ratio can also alert you to gender, ethnic origin, age, or other forms of conscious or unconscious biases.

It's important to realize that an out of range compa-ratio indicates the possibility of a problem. Only a comprehensive examination can guide you to the root of the problem.

Average compa-ratio

Average Compa-Ratio = Sum of Individual Compa-Ratio / Number of Individuals

Using compa-ratio in your compensation strategy;

- Conduct frequent evaluations to align practices to your strategy and establish a good compensation plan to reward people equitably, using the compa-ratio in your compensation strategy.
- Compare compa-ratios to tenure, experience, and job responsibilities while conducting reviews.
- Assign each job or position classification a "next review date," keep track of compliance dates, and include a group compa-ratio analysis in your review.
- Continue to improve your people analytics capabilities so that you can automate compa-ratio aggregation with other quantitative criteria that affect employee remuneration.
- Never use the compa-ratio as a sole indicator of equity. It just alerts you to a potential problem.
- Explain how you use compa-ratio and what it means to your employees.
- Teach managers how to talk to their employees about the compa-ratio.

Finally, a compa-ratio study is a great way to keep track of a company's salary competitiveness.. The compa-ratio analysis can be considered as a company's risk monitor. Employees with a compa-ratio of less than 80% compared to the market median are at significant risk of quitting the company. To enable management to make informed pay decisions, compa-ratio dashboards must be generated regularly and provided to to the Board.

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