ELMO RELEASING HR'S FULL POTENTIAL

11 REMUNERATION METRICS TO TRACK

A cheat sheet for business leaders

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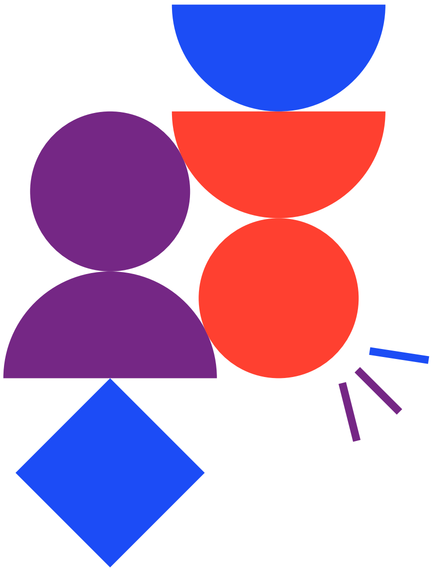
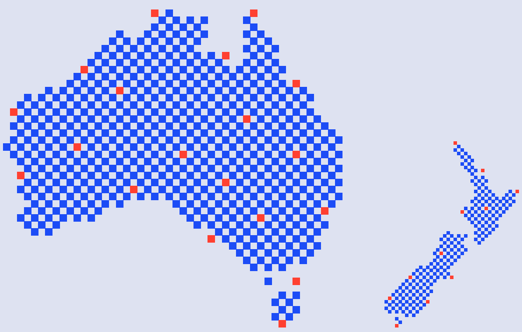
INTRODUCTION



Successful organisations understand that employees are largely motivated to contribute when they are paid well and offered a great employee experience with opportunities for career growth.

Remuneration (or compensation) metrics help business owners see at a glance if they're paying workers enough to keep them satisfied, while also ensuring each employee's remuneration corelates with their performance and overall contribution to the business.

Many managers miss out on this valuable intel because they fail to measure the effectiveness of their HR initiatives, even as they question why they don't see positive results. Organisations that use metrics effectively are in the minority, but those that do have a distinct competitive advantage.



Each year, ELMO Software surveys 1,500 HR professionals from businesses of all sizes and industries across Australia and New Zealand. Since 2021, there has been a steady increase in organisations turning to tech to measure their HR metrics. When it comes to remuneration, a significant 30% of respondents said their top challenge in 2023 is a lack of transparency.

There are potentially hundreds of HR metrics to track, so selecting the ones that matter is an important first step. This guide shows you how to calculate 11 key metrics relating to remuneration.

01 COMPA-RATIO

(comparison ratio)

The compa-ratio (comparison ratio) compares an employee's salary with the market midpoint (middle of the range salary) for similar positions at other companies. This means that 50% of salaries are higher than the market midpoint and 50% of salaries are lower. It helps managers to determine whether or not their pay policy is competitive enough to attract, retain and engage employees.

This metric is specific to a particular position, but can be used to compare remuneration across all roles and locations. It is the most important compensation metric.

HOW TO CALCULATE IT

$$\text{Compa-ratio} = \frac{\text{Salary paid to an individual}}{\text{Market range midpoint for that position}} \times 100$$

As an example:

Employee A is paid **$65,000** for their role as an accountant. This is what accountants at other companies are being paid:

Employee A	Comparison salary				
$65,000	$57,000	$59,000	$67,000	$75,000	$82,000

Step 1: Calculate the market midpoint for the comparison salaries. How to do this?

$$\frac{\text{Highest amount + lowest amount}}{2}$$

$$\frac{\$82{,}000 + \$57{,}000}{2} + \$57{,}000 = \$69{,}500$$

Market midpoint for an accountant: $69,500

Step 2: Compare your employee's salary with the market midpoint.

$$\frac{\text{Employee salary}}{\text{market midpoint}} \times 100$$

$$\frac{\$65{,}000}{\$69{,}500} \times 100 = 93.5\%$$

Compa-ratio = 93.5%, **which means you're paying slightly below the market rate.**

WHY IS THIS IMPORTANT?

Managers who calculate the compa-ratio for a particular position are better equipped to make fair decisions about salary levels or pay rises for employees, because they can see what's standard in their industry.

When armed with data that shows how their payment rates compare to the market midpoint, managers are well- placed to serve the interests of both the business and its employees.

It's important that managers pay their employees competitive rates, as this often determines if an employee chooses to join, stay or leave.

What the compa-ratio indicates:

<100%

Payment is below the market rate

100%

Payment is equal to the market rate

>100%

Payment is above the market rate

However, this information shouldn't be taken at face value alone, because a number of factors influence the market rate. These include:

- Job level / band
- Department
- Tenure of employment
- Location
- Gender
- Performance rating
- Bonuses and other benefits

For example, job responsibilities are usually inconsistent across companies, even for the same position.

Some companies also provide compensation (such as bonuses) on top of salary. In such cases, an organisation's compa-ratio for a particular position may be below the market rate, but the additional benefits on offer are strong enough to make up for the shortfall.

02 AVERAGE SALARY

This metric represents the average (typical) salary earned by employees category. It's calculated by adding all the salaries from a specific category and dividing that sum by the number of employees in that group.

HOW TO CALCULATE IT

$$\text{Average salary} = \frac{\text{(Sum of salaries in particular category)}}{\text{Number of employees in that category}}$$

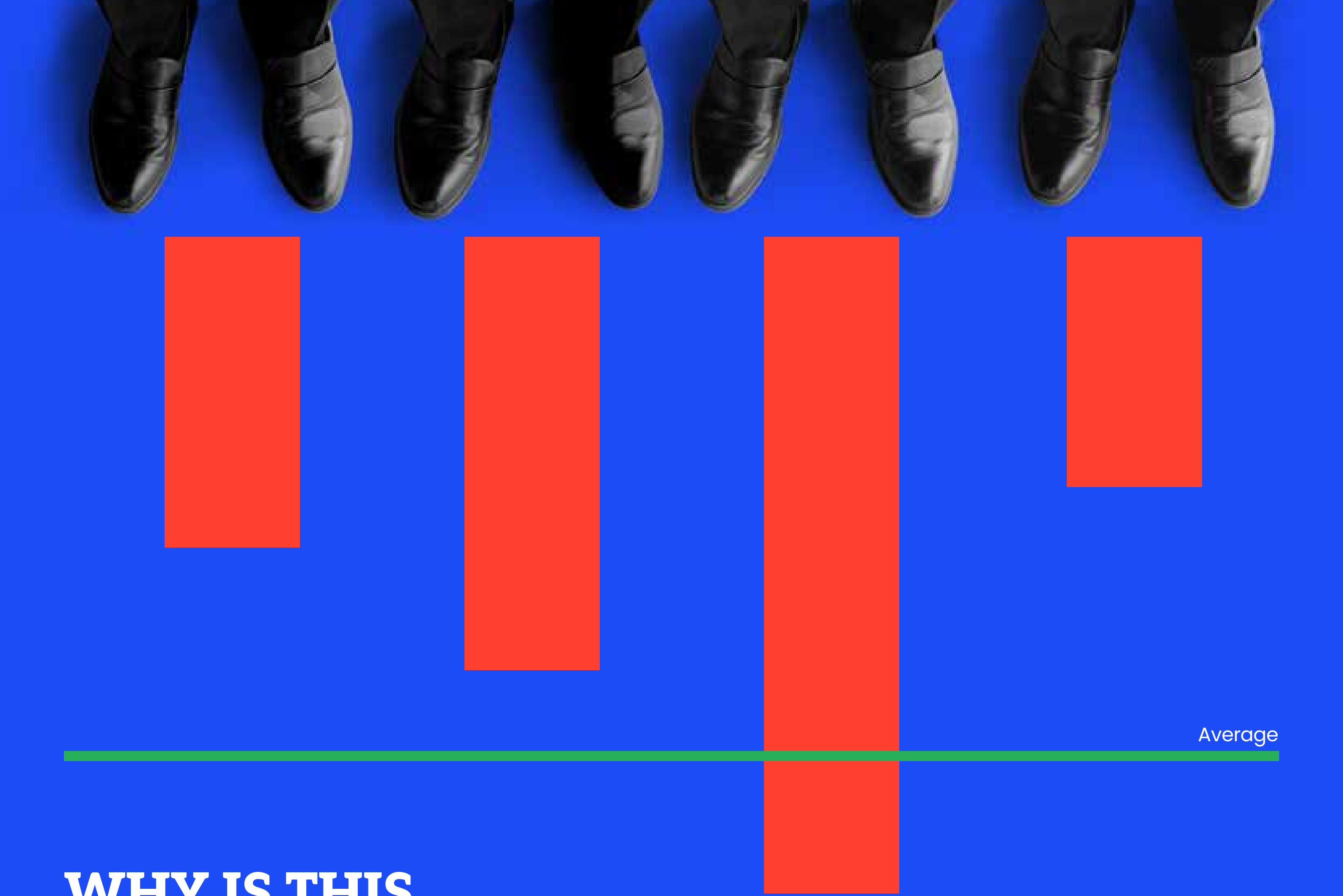
As an example:

Five employees in the accounting department

$45,000 + $60,000 + $95,000 + $58,000 + $75,000 = $333,500

$$\frac{\$333{,}500}{5} = \$66{,}700$$

Average salary = $66,700



WHY IS THIS IMPORTANT?

This is another metric that helps managers to set competitive salary levels and make informed decisions about pay, while balancing overall costs. Calculating the average salary paints a picture of what the "typical" employee earns, however, this metric isn't as neutral as calculating the compa- ratio.

Why is this?

The salary average can be distorted if particular employees earn significantly more or less than their counterparts.

For example, the average will be higher if one employee earns $120,000 and the rest earn between $60,000 and $70,000.

In such a case, the average would not be an accurate reflection of the typical salary in that group.

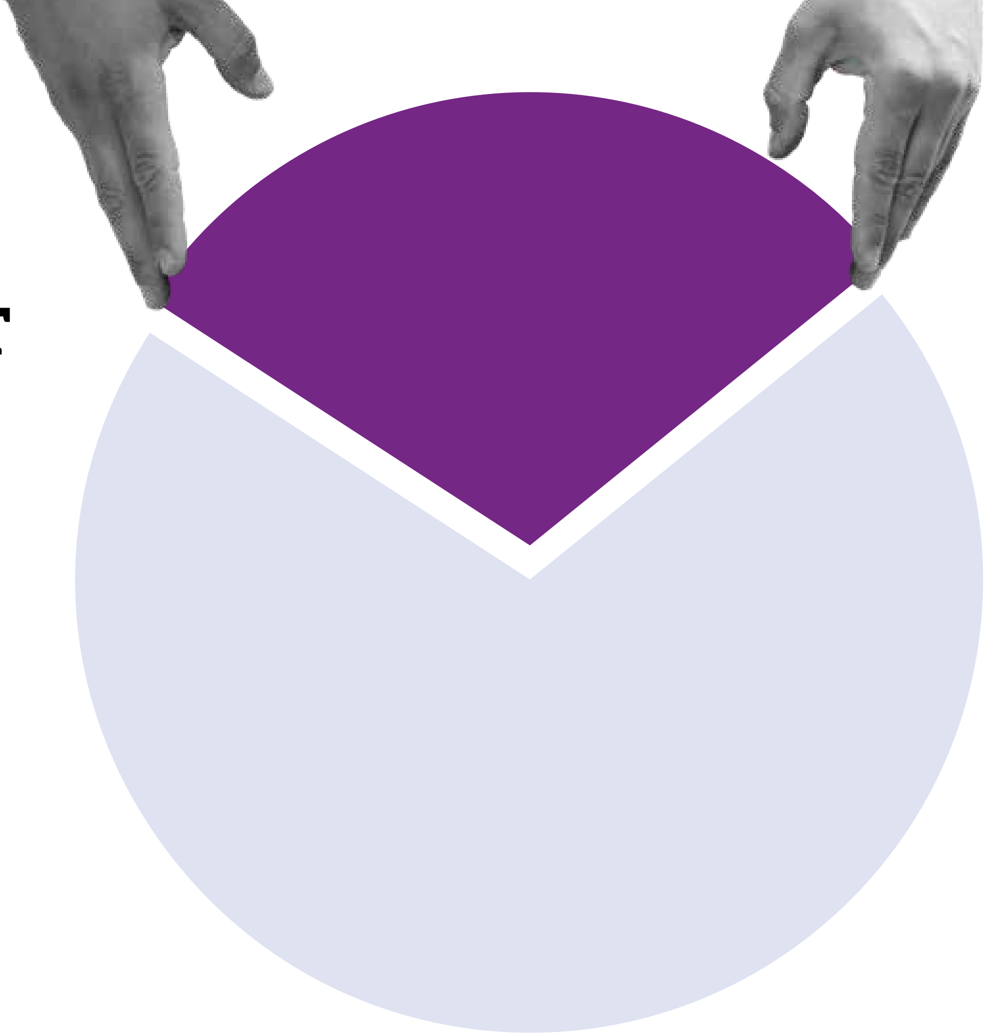
However, calculating the average salary is particularly useful when managers are unable to access the external market data that's required for calculating comparison ratios.

The average salary metric is usually suited for smaller populations – for example, employees in the same position category.

03 PERCENT OVER RANGE

The salary range represents the lowest, midpoint and highest rates that an organisation is willing to pay for a particular position – depending on experience, job tenure and other factors. **Percent over range** is the percentage of employees who are being paid **over the maximum amount** within the allocated salary range.

HOW TO CALCULATE IT



Step 1: Employer sets the salary range (minimum, midpoint and maximum)

There’s no hard and fast rule about how to do this, and it’s possible to base this figure on ranges from other credible sources. However, organisations commonly set a salary range formula between 30% and 40%. For the purpose of this example, the salary midpoint is the base and we’ll use a salary range formula of 30%.

Step 2: Find the midpoint for the position or industry that you’re focusing on

Example: Accountants working for Company A

$$\boxed{\frac{\text{(Highest amount + lowest amount)}}{2}} \quad \frac{\$120{,}000 + \$57{,}000}{2} = \$88{,}500$$

Market midpoint for an accountant: $88,500

Step 3: **Apply your chosen formula to the midpoint to determine the maximum amount within the salary range.**

For example, if using a 30% salary range formula:

$$\boxed{\frac{\text{Market midpoint x 30\%}}{100}} \qquad \frac{\$88{,}500}{100} = \$26{,}550$$

Add this number to the market midpoint to get the maximum amount of the salary range.

$88,500 + $26,550 = $115,050

$115,050 is the maximum salary within your set range.
This means that any salary that exceeds this amount is over the set range.

Step 4: **Determine the percent over range:**

Salary 1:	Salary 2:	Salary 3:	Salary 4:	Salary 5:

$57,000	$60,000	$78,000	$82,000	$120,000

In this example, one salary exceeds the maximum range.

$$\boxed{\frac{\text{Number of salaries over range}}{\text{number of employees}} \text{ x 100}} \qquad \frac{1}{5} \text{ x } 100 = 20\%$$

Percent over range = 20%

WHY IS THIS IMPORTANT?

Managers who take the time to set and follow competitive salary ranges are better equipped to pay their employees fairly, without going over budget and compromising other areas of the business.

A high "percent over range" indicates a failure to honour the allocated salary range, which could mean:

- The salary range is too low and needs to be lifted to better reflect what high-performing employees deserve to be paid.
- The organisation is spending too much on salaries, which could cause shortfalls in other areas
- The salary review process isn't thorough enough (too many people are being granted their requested salary).
- There's a problem with pay inequality: some employees might be getting paid significantly more than others and a review may be needed to see if this decision is justified based on individual merit and experience.

In terms of overpaying employees:

There's an assumption that higher pay increases motivation levels, but it can actually have the opposite effect, if this decision isn't based on merit. Managers shouldn't fall into the trap of approving pay raises if staff performance doesn't meet their expectations.

In addition to spreading resources thinly, excess pay sometimes stifles employee development and prevents actively disengaged employees from leaving because they know they're unlikely to earn as much for a similar job elsewhere.

04 PERCENT UNDER RANGE

The salary range represents the lowest, midpoint and highest rates that a business is willing to pay for a particular position – depending on experience, job tenure and other factors. **Percent under range** is the percentage of employees who are being **paid under the minimum amount** within that allocated salary range.

HOW TO CALCULATE IT

Step 1: **Employer sets the salary range (minimum, midpoint and maximum)**

There's no hard and fast rule about how to do this, and it's possible to base this figure on ranges from other credible sources. However, organisations commonly set a salary range formula between 30% and 40%. For the purpose of this example, the salary midpoint is the base and we'll use a salary range formula of 30%.

Step 2: **Find the midpoint for the position or industry that you're focusing on**

Example: Accountants working for Company A

$$\boxed{\frac{\text{(Highest amount + lowest amount)}}{2}} \qquad \frac{\$120{,}000 + \$57{,}000}{2} = \$88{,}500$$

Market midpoint for an accountant: $88,500

Step 3: Apply your chosen formula to the midpoint to determine the minimum amount within the salary range

For example, if using a 30% salary range formula:

$$\boxed{\frac{\text{Market midpoint x 30\%}}{100}} \qquad \frac{\$88{,}500 \text{ x } 30\%}{100} = \$26{,}550$$

Subtract this number from the market midpoint to get the minimum amount of the salary range. $88,500 - $26,550 = $61,950

$61,950 is the minimum salary within your set range.
This means that any salary that falls below this amount is under the set range.

Step 4: Determine the percent under range:

Salary 1:	Salary 2:	Salary 3:	Salary 4:	Salary 5:

$57,000	$60,000	$78,000	$82,000	$120,000

In this example, two salaries fall below the minimum rate.

$$\boxed{\frac{\text{Number of salaries under range}}{\text{number of employees}} \text{ x } 100} \qquad \frac{2}{5} \text{ x } 100 = 40\%$$

Percent under range = 40%

WHY IS THIS IMPORTANT?

This metric reveals if there's a pattern of underpaying employees, which could have damaging repercussions for both the individual and the organisation.

What is the impact of low engagement?

Employees who aren't fairly compensated are more likely to feel unsatisfied and do the bare minimum at work, which negatively impacts business performance.

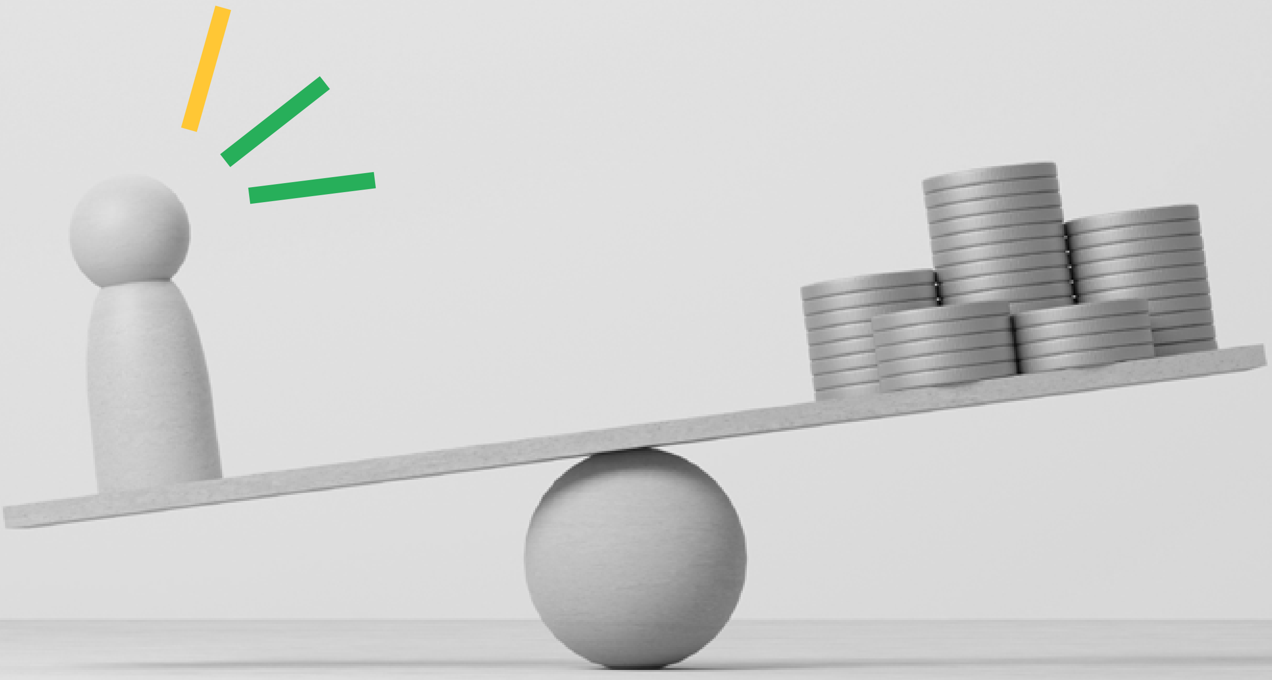
Case in point: actively disengaged employees cost the Australian economy more than

$2 BILLION

per year, according to a survey by [Gallup]

High turnover rates also tend to occur when people believe they're not being paid what they deserve. On the other hand, managers who set and honour competitive salary ranges are more likely to pay their employees fairly, which leads to higher productivity levels, lower turnover rates and significant cost savings.

05 PERFORMANCE TO PAY RELATIONSHIP



The performance to pay relationship represents the difference in earnings between performance levels (as a percentage). This can be applied to a particular job category to get targeted results, or across the entire organisation for a wider comparison.

HOW TO CALCULATE IT

Step 1: **Schedule regular appraisals to determine what performance category each employee falls into.**

You can set your own category labels, but an example would be:

effective | highly effective | underperforming

Step 2: **Divide employees into the different performance groups.**

Step 3: **Take a position type (e.g. accountants) and calculate the salary midpoint for each performance category (e.g. highly effective, effective and underperforming).**

$$\frac{\text{(salary range minimum + salary range maximum)}}{2} = \text{midpoint}$$

Step 4: **Calculate the percentage difference between each category midpoint to determine the merit increase.**

$$\frac{\text{Higher midpoint - lower midpoint}}{\text{lower midpoint}} = \text{salary differential}$$

Example:

Salary midpoint:

$70,000 | $60,500 | $50,000

Salary difference between **effective** and **highly effective employees:**

$$\frac{\$70{,}000 - \$60{,}500}{\$60{,}500} \times 100 = 15\%$$

Salary difference between **underperforming** and **effective employees**:

$$\frac{\$60{,}500 - \$50{,}000}{\$50{,}000} \times 100 = 21\%$$

WHY IS THIS IMPORTANT?

The "performance to pay" relationship shows managers whether or not there's reasonable pay progression between performance categories. This metric often reveals a pattern of overpaying low performers or not paying star employees enough.

Consider this example:

2% difference between the salaries of "highly effective" and "underperforming" employees isn't much, which indicates that dedicated workers aren't being paid enough for their significant contribution.

As a result, high-performing employees may lose motivation or choose to leave the organisation. There's little financial incentive for disengaged employees to work harder as well, because they know they won't be paid adequately if they do.

It's important that high-performing employees are paid competitively for their efforts, which also gives their colleagues plenty of incentive to step up.

Research shows that recognising and rewarding employees is the best way to boost morale in the workplace. A fair salary with the potential for progression is one of the best ways to do this.

06 PROMOTION RATE

The promotion rate represents the percentage of employees who have been promoted within a specific time frame.

This metric can be applied to the entire organisation, as well as particular categories (for example, specific departments, gender and age groups).

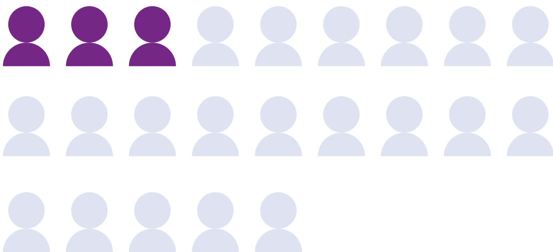
HOW TO CALCULATE IT

Calculating the promotion rate:

$$\text{Promotion rate} = \frac{\text{Number of promotions over a particular time frame}}{\text{Total number of employees}} \times 100$$

As an example:

3 out of **23** employees were promoted over a year period



$$\frac{3}{23} \times 100 \quad =13\%$$

A 13% promotion rate

Calculating the average increase over a particular period.
Annual percentage growth over a single year:

$$\text{Average increase} = \frac{(\text{final value} - \text{starting value})}{\text{Starting value}} \times 100$$

As an example:

3 promotions at start of **2023**

2023

$$\frac{(7 - 3)}{3} \times 100 \quad =133\%$$

133% average increase over a year

WHY IS THIS IMPORTANT?

An organisation's promotion rate is one indicator of the level of change occurring within its walls. A high promotion rate often reflects business growth, as employees excel in their roles and step up to take on new responsibilities.

It's also a sign the organisation is engaging employees by giving them what they want. People actively seek out jobs with career growth and are more likely to walk away from organisations that don't provide this. In Australia and New Zealand, career development continues to remain a top priority for employees based on ELMO's quarterly Employee Sentiment Index report.

Having said this, managers need to ensure they're not too quick to assign promotions – this decision should be justified by merit. In some cases, high promotion rates may reflect poor decision-making (i.e. giving promotions to undeserving candidates).

On the other hand, low promotion rates could indicate:

- Stagnant business growth.
- High turnover rates: employees don't remain at the company long enough to climb the ranks.
- Low staff engagement (people aren't being challenged or motivated by career development).

Managers can also compare the promotion rates of different divisions within the organisation to highlight any inclusion problems. This exercise highlights if certain groups (women, for example) are being overlooked for opportunities.

What is a satisfactory promotion rate?

There is no hard figure for this, but managers can compare their promotion rate to industry benchmarks to get a better idea o what's happening in the marketplace.

If you're unable to find this information, this general statistic may be a good starting point:

Organisations promote

6% of employees each year,

according to the Society for Human Resource Management (SHRM)

07 EMPLOYEE TURNOVER RATE

The employee turnover rate represents the percentage of staff who leave an organisation over a certain timeframe (it's commonly measured on a yearly basis).

Managers can apply this calculation to all employees on their payroll, as well as break it down further:

- Voluntary turnover: employees who choose to leave
- Non-voluntary turnover: employees who are asked to leave (for example: terminations and redundancies).

This metric usually doesn't include staff who have transferred internally or been promoted within the organisation.

HOW TO CALCULATE IT

Step 1: **Calculate the average headcount for the year**

$$\text{Average headcount} = \frac{(\text{Headcount at start of year} + \text{headcount at end of year})}{2}$$

As an example:

$$\frac{\text{Headcount at start of year} + \text{headcount at end of year}}{2} \qquad \frac{56 + 48}{2} = 52$$

Step 2: **Calculate the annual turnover rate**

$$\text{Average headcount} = \frac{\text{Number of employees who left the company}}{\text{Average headcount of employees}} \times 100$$

As an example:

In 2023, **8** employees left the company. The average headcount is **52**.

$$\frac{\text{Number of employees who left the company}}{\text{Average headcount of employees}} \times 100 \qquad \frac{8}{52} \times 100 = 15\%$$

WHY IS THIS IMPORTANT?

Even the most successful businesses experience a small degree of employee turnover, which is inevitable and healthy. However, serious problems arise when exit interviews are being conducted every few months because people are leaving so frequently. High levels of employee turnover can harm business performance.

Some of the dangers of high turnover include:

- Low productivity
- Lengthy recruitment campaigns with high costs (most organisations on average, take between one to four months to fill a vacancy)
- Stress, tension and depleted morale in the workplace
- Lost shareholder value
- High exit costs

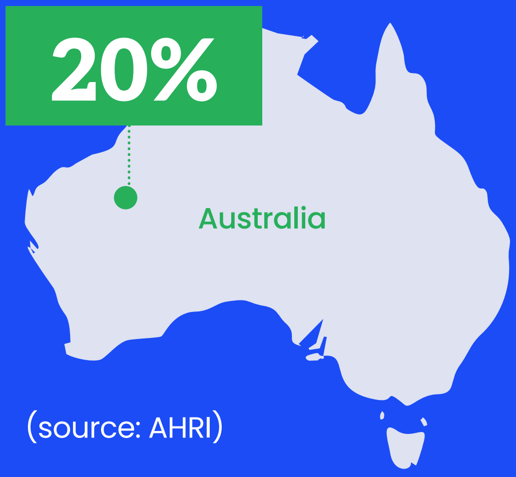
In Australia, for example, staff turnover costs organisations $3.8 billion in productivity and $385 million in avoidable recruitment expenses every year, according to widely-reported research by PwC.

Is your turnover rate normal or too high?

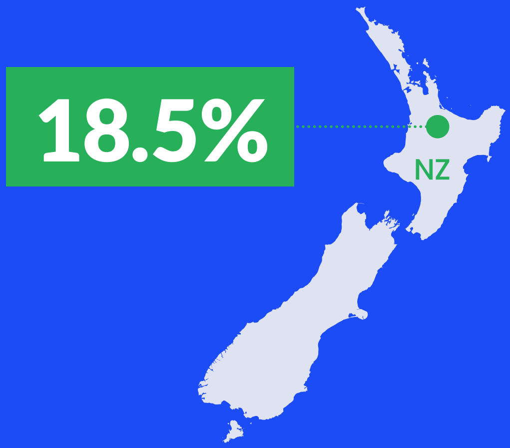
Managers who calculate their turnover can see how their rates compare to industry averages in order to understand if their churn rates are healthy or concerning. There are actions they can take to increase retention levels, if any problems are identified.

A good place to start: Calculate your annual staff churn rate and compare this figure to the average employee turnover for your industry. Higher than average figures could indicate that your organisation is losing too many people to sustain optimal performance.

If you're unable to access benchmark data, consider these average turnover rates:



(source: AHRI)



source: New Zealand Staff Turnover Survey Report

According to a LinkedIn study, these are the industries with the highest turnover rates:

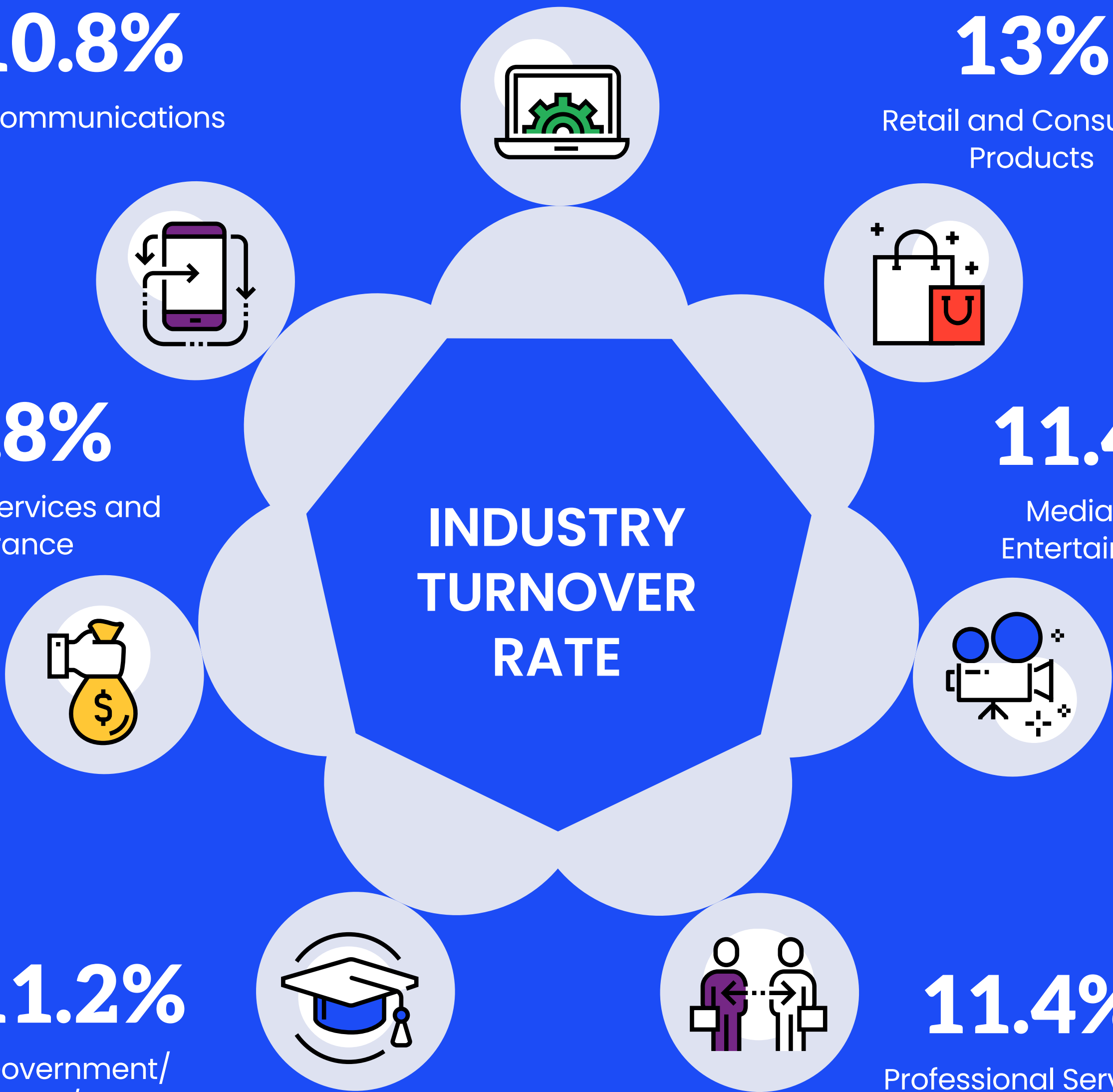
13.2%
Technology (software)

10.8%
Telecommunications

13%
Retail and Consumer Products

10.8%
Financial Services and Insurance

11.4%
Media and Entertainment



11.2%
Government/ Education/Non-Profit

11.4%
Professional Services

Please note: multiple factors determine if the level of attrition is considered healthy or adverse, including industry sector, and demand for skilled workers in that sector.

EXTERNAL
MARKET INDICATOR

08 CONSUMER PRICE INDEX (CPI)

External market indicators are figures that help us understand the environment of the wider financial market, which in turn influences employee salaries, as well as the attraction and retention of staff.

The consumer price index (CPI) measures changes in the price of goods and services for households over time, based on the weighted average that comes from survey information.

Examples of goods and services include food, utilities, transport, retail, education and recreation services.

All citizens are indirectly impacted by the CPI results, which are released quarterly. This data influences government policy, interest rates, employee payments and more.

WHERE TO FIND THIS INFORMATION

Australia:

CPI rose 5.4% over the 12 months to the September 2023 quarter.

Consumer price index (CPI) rates

New Zealand:

CPI rose 4.7% over the 12 months to the December 2023 quarter.

Consumer price index (CPI) rates

HOW TO CALCULATE WAGE INCREASES BASED ON THIS DATA

Take the yearly CPI percentage change and increase the individual's salary by that amount.

Example:

1.5% CPI in New Zealand means a 1.5% salary increase for each employee.

Salary: $65,000

$$\frac{\$65{,}000 \text{ X } 1.5}{100} = \$975 \text{ salary increase}$$

WHY IS THIS IMPORTANT?

Unsatisfactory pay is one of the main reasons why people become disengaged at work or leave their jobs. Employees who experience financial stress are more likely to become distracted at work, or resent their employer if they feel their earnings don't cover the higher cost of living.

Organisations should ensure that pay rises reflect increases to the cost of living. The consumer price index (CPI) is one way to measure how much an individual's cost of living has risen over the year. Wage growth should be in line with that inflation, otherwise managers are essentially giving their employees a pay cut.

EXTERNAL
MARKET INDICATORS

09 WAGE PRICE INDEX (AU) LABOUR COST INDEX (NZ)

The Wage Price Index (WPI) (AU) and Labour Cost Index (LCI) (NZ) measure changes in wages and salaries for jobs, unrelated to the performance quality or production quantity. Many organisations use these key economic indicators to develop their policy on wages, because they are considered an early sign of inflation.

WHERE TO FIND THIS INFORMATION

Australia:

WPI rose to 1.3% for the September quarter 2023 and 4.0% over the year.

WPI rates can be found here. The report contains WPI information for different sectors and regions too.

New Zealand:

New Zealand's equivalent is the Labour Cost Index (LCI).

LCI increased to 4.3% in the year to the March 2023 quarter. LCI rates can be found here, with additional information here.

WHY IS THIS IMPORTANT?

It's recommended that employers make sure their wage increases are in line with the WPI and LCI rates for their specific industry and region.

We already know that low pay is the most common reason why people leave their jobs in search of a better opportunity. There's a risk that staff will seek employment elsewhere if wage increases do not at least match the amount that your competitors are paying.

10

UNEMPLOYMENT RATE

The unemployment rate represents the percentage of the total workforce without a paid job. It applies to unemployed people who are both willing and able to work; however, people who have undertaken a small amount of work within the reference period are excluded.

In Australia, this data is based on estimates from the Australian Bureau of Statistics (ABS).

In New Zealand, this data is supplied by Statistics NZ. National data can be broken down into smaller categories, for information on particular sectors, industries, territories, regions, age brackets and more.

WHERE TO FIND THIS INFORMATION

[Australia:]

Unemployment rate is 3.8%
in **December 2023**

[New Zealand:]

Unemployment rate is 3.9%
in the **September 2023** quarter

WHY IS THIS IMPORTANT?

The unemployment rate is a reflection of conditions in the market that influence a company's recruitment, engagement and remuneration decisions.

The demand for labour:

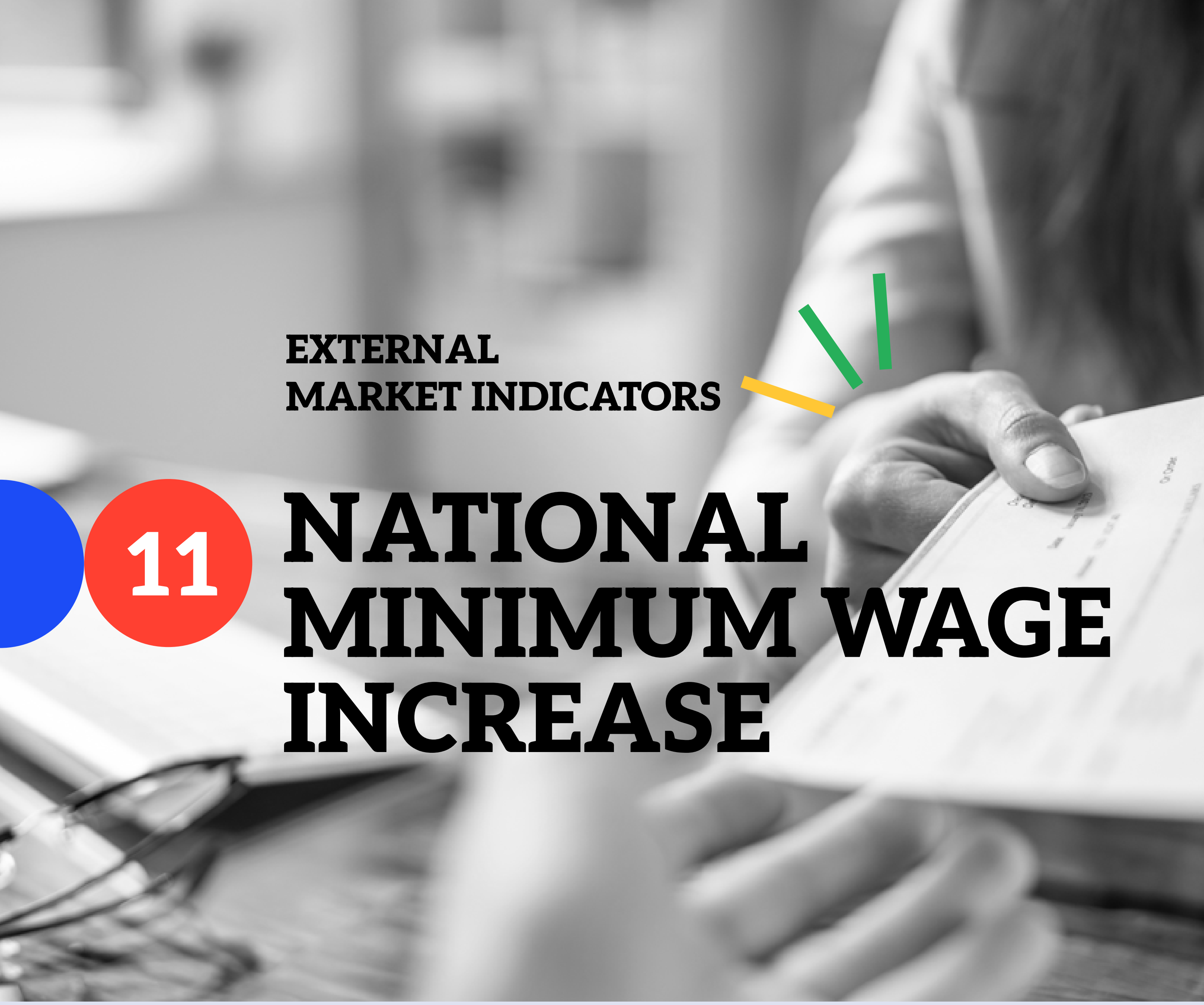
A high unemployment rate usually indicates an underperforming economy, while a falling (or low) unemployment rate points to an expanding economy. Unemployment data also reveals which sectors are struggling to fill positions and how competitive the market is.

Implications for organisations:

A high unemployment rate for your industry means there are far more job seekers than open positions. It's often easier for companies to fill vacancies because job seekers don't have too many other options, and so they're competing for positions.

Conversely, a low unemployment rate generally makes it harder for companies to fill job vacancies, because there are fewer candidates looking for work. In this environment, there's no shortage of employment options for job seekers, which means they can afford to be more selective. This makes it harder for organisations to attract and retain suitable employees, which may lengthen recruitment campaigns and increase salary expectations.

Managers who keep their finger on the pulse are better positioned to adapt their strategies to market conditions. It's always crucial to look after employees by providing fair compensation and good working conditions, however it doesn't hurt to go that extra mile to engage and retain staff during times of low unemployment.



EXTERNAL
MARKET INDICATORS

11 NATIONAL MINIMUM WAGE INCREASE

The national minimum wage is the lowest hourly wage that employers are required to pay their workers before tax, as mandated by law.

It applies to all workers in the nation who aren't already covered by an award or registered agreement, as not every industry is regulated by one. Industries that are covered by an award set their own wages, which are based on the national minimum wage. The government assesses the national minimum wage every year and occasionally increases the amount to reflect inflation and the growing cost of living.

Organisations are not allowed to pay workers less than the minimum wage, even if the worker approves of this.

In Australia, the national minimum wage applies to employees aged 21 years or older, and there are separate categories for apprentices, juniors and employees with disability pay rates. In New Zealand, it applies to employees aged 16 years and over.

There's the adult minimum wage, starting-out minimum wage and training minimum wage.

WHERE TO FIND THIS INFORMATION

Australia:

$23.23 per hour is the current national minimum wage **(as at 1 July 2023)** for adults who aren't covered by an industry award or registered agreement.

This pay calculator helps employers determine what they should be paying, if their company is regulated by an award or registered agreement.

New Zealand:

$22.70 per hour is the current national minimum wage **(as at 1 April 2023)** for adults.

WHY IS THIS IMPORTANT?

Employers need to make sure they honour the minimum pay rates mandated by their award or industry agreement. At the very least, they must pay staff the national minimum wage if there are no specific guidelines for their industry.

Business owners can always pay more than the minimum rate, but never below it. Severe penalties apply for employers who break the law.

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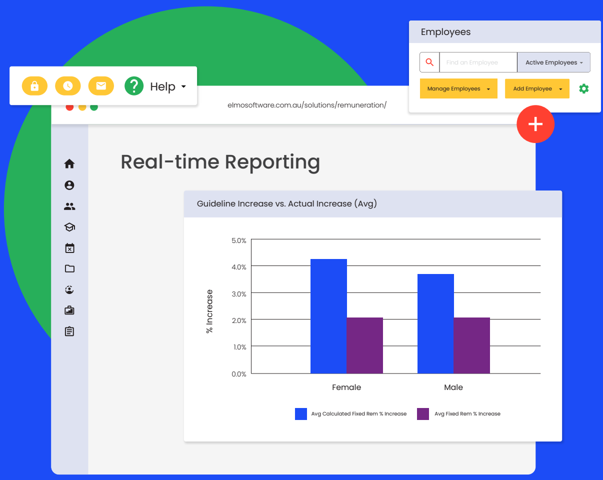

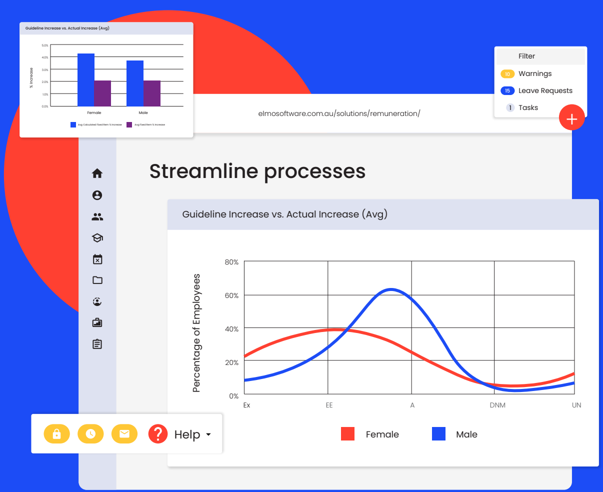

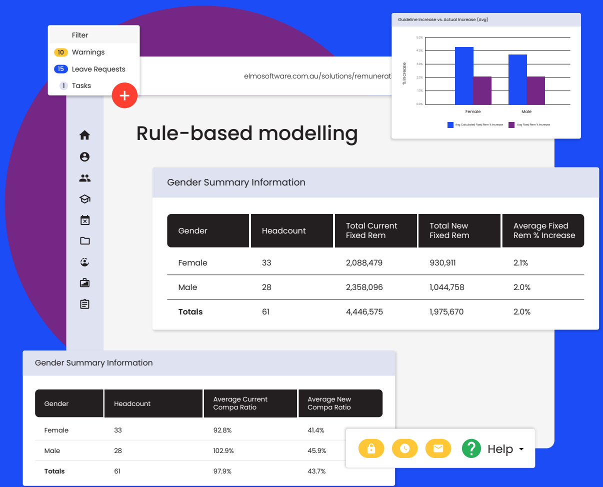

ABOUT ELMO SOFTWARE

Founded in 2002, ELMO Software is the trusted provider of HR technology solutions to 3,000+ organisations and two million end users across Australia, New Zealand and the UK.

With a comprehensive suite of ISO-certified solutions that span the full employee lifecycle, ELMO Software is designed to scale as organisations grow. ELMO Remuneration, for example, is a best-in-class solution to help manage the critical business process of pay reviews, which includes budget modelling and real-time reporting.

See ELMO in action with one of our friendly consultants to experience our HR and payroll solutions for your organisation.

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