HR Analytics

Prof. Santosh Rangnekar

Department of Human Resource Management

Indian Institute of Technology, Roorkee

Dr. Abhishek Singh, Assistant Professor

Department of Human Resource Management

Indian Institute of Management, Rohtak

Week:11

Lecture:56

Dear participants, so three sessions on compensation analytics we have already completed. This is the last session for the compensation analytics. So, in this session also we will discuss some more statistics, some more formulas related to the compensation analytics. so that as a manager you can make appropriate decisions related to the compensation of the employee in the organization right. So let us start with the content that we will discuss in this session. So what here we are going to discuss first thing that we are going to discuss performance index and the relationship between compa ratio.

So, what is this compa ratio is, how we calculate, what is the importance? So, that is the decision that is what we will discuss and then this performance index, how it is related with the performance index that is what we will understand in this session. Second thing that we are going to talk about the salary increment decision. So, how that whatever decision that you are taking the salary increment decision that one decision that we already discussed based on the performance rating in which category that you are coming. Now, if you want to adjust the salary related to the your competitor.

So, what you what base that you can use and how you can make the decision related to it. right so for example initially when you started your startup that time you were not having the amount so you started with the lower salary but now your startup has grown it is making good profit you have ability to pay and you want to attract, you want to increase the attractiveness of your startup as compared to your competitor. So, what you should do and how, what kind of salary increment that you should give and what should be the base for that, right? So that decision how you can take that is what we will discuss in this. Next

thing that we will discuss the analysis of salary component, earlier also we have discussed in this session also we will discuss from the different perspective how you can increase the salary of the various component right and job category based on the job category also we will understand how it is related with the comparison right. So, let us start with this market competitive compensation.

 So, that the CPI stands for consumer price index right. So, current whatever is the current consumer price index and previously what it was and divided by the previous CPI multiply by 100. So, it will tell you the this consumer price index, right? What is the percentage of increase or decrease? So, if current is high, higher than the previous one, right? Then you will get the positive, right? If it is lesser than the previous one, then you will get the negative, right? Consumer price index, right? So, whatever increment that you are giving, how it is going to whether it is more than this consumer price index or it is lower than the consumer price index. So, if it is lower the consumer price index in the case of negative. then employees are going to be happy but if it is lower in the case of the positive then employees may not be happy in the with the increment that you have given to the employee right so that is what you that is how you can think about this market competitive compensation increment by understanding the consumer price index, right.

 So, that is how you can calculate the consumer price index and then you can think about the incentives that you are giving or that increment percentage, average percentage of hike that you are giving to your employee. You can compare this with the average percentage of hike and then you can think you whatever decision that you are taking whether it is appropriate or not right. So, in the case of negative I already said people may be happy because you are increasing salary, consumer price index has gone down, inflation is low. right and in the case of if it is higher then you need to think how much you are giving right whether it is going to compensate the market inflation or not right so that is what you can think here so that is how you can calculate this consumer price index and then you can compare with the incentive or that percentage hike that you are giving to your employee next important thing is this compa ratio right. So, this compa ratio how you can calculate first that you need to understand.

 So, first is the employee pay rate right how much amount that you are paying right. So, base rate that is what you can say divided by pay range midpoint. Now question comes this employee pay rate is already available with the organization. This data is already available, employee pay rate is whatever amount that you are paying, so this data is available. Now question comes, how you will get this information, pay range midpoint.

So, this information we get through the market survey. that market rate, that competitor market rate, right. So, you need to do this compensation survey. So, when you will do this compensation survey, for example, you feel that your competitors are 5, right. So, what is the price, the pay rate in these 5 organization, right.

So, mostly you will, most of the time you will find this midpoint market average or median. So, market average or median. So, that is how you can see the competitor you can take, all market you can take. So, how many organization that you are serving for the compensation data? You can get that data, you can calculate the median or average and then you can put it here divided by that. So, if that compa ratio is 1.

So, what it indicates? What it indicates? It will indicate that employee rate in your organization and market rate is equal, right. If comparison is more than 1, for example it is 1.5, so it indicates that your organization paying salary which is higher than the market rate. if it is lesser than 1, 0.75 that indicates that your organization paying salary which is lesser than the market rate.

So, I hope you can understand how to calculate this compa ratio, right. So, if you are keeping the eye on the compa ratio of your organization that will tell you whether you are paying the salary at par with the market rate or not right. So, you can compare this compa ratio with the attrition people who are leaving the organization. So, compar ratio right and attrition and then see if it is higher how it is correlated. So, you can so one draw one correlation between attrition right and comparation comparation.

So, here you can say lesser than 1 right. So, 0 to and then you can say 2 right. So, that is how you can take the compa ratio on this 3 and attrition number of people are leaving. So, that compa ratio position wise department wise that is what you can calculate and then you can see the attrition number of people are leaving. So if compa ratio is high and then also people are leaving, then you need to think the real cause of the attrition.

Salary is not the cause because you are already paying the higher salary than the market rate, right. So salary is not an issue. So you need to identify the real issue of the attrition. What is the real issue? It is the culture. it is the person's ability, it is the supervisor, it is the organizational values, right? What are opportunities for the job, right? What are the other regions that is what you need to analyze, but salary is not the reason.

So, that is how you can conclude, you can conclude the compa ratio and attrition. So, this correlation that you can identify and that is how you can visualize the data, right? So, that is how you can use in relation with attrition and compa ratio So, if it is lesser than 1, then you are not paying the salary as per the market rate, right. So, now you need to think the

retention strategies, how you can retain the employees within the organization. So, by increasing the employee benefit by increasing the non non-monetary benefit right. So, that is how you can think and you can make a strategy because you do not have ability to pay more than the market rate right.

Then you may think about the some other employee benefit and the non-monetary benefit, right. So, that is how you can develop your total reward strategy by using this ratio by comparing with the attrition, right. If salary is the reason or other things are the reasons, right. So, people do compare their salary with the competitor, right. If competitor are paying more, giving more benefit then they may leave to them.

So, in this case you need to think about it and then you can make the comparison, right. So, this is the one of the use of this compa ratio. So, I hope you would have understood how to calculate the compa ratio and how to use it. So, now let us move to the next benefit of the compa ratio, right. So, here that you can see the compa ratio that you have written here, right.

So, what I have written one side that you can see the performance grade, exceptional, outstanding, proficient, developing and minimal. So, let us assume these are the ratings 1, 2, 3, 4, 5, right. Now, what do you want? You want to retain the people from first three category, right. So, what you can do? You can see the compa ratio of these employees after the increment that you have given. If it is goes more than one, right, then you may be happy.

For example, these two categories you do not want to keep the people, then you can see their compa ratio. whether it is less than 1 or it is above 1, right. So, above 1 that I already said you are paying higher than the market rate. So, accordingly you can design your incentives. I hope you are getting it what I am trying to make you understand.

So, these are the performance rating, right. So, after performance rating you will give the incentives to the employees, right. So, in this case you check after giving the incentives how much salary that person's salary is going to increase. So, after that you check the compa ratio after the increment whether it is above the market or lesser below the market rate. So, if it is above the market rate then compa ratio is going to be more than 1, if it is less than the market rate then it is going to be 1.

less than 1, right. So, you decided first three category people you will keep in your organization, remaining two category people you will not keep, right, you will not provide developmental opportunities, right. So, what you can do in that case? in that case you can give an incentive, you can design the incentive in such a way so that the first three category employees compa ratio is more than 1 and below two categories compa ratio of the salaries and benefit is lesser than 1. Then these people may move to your competitor because you

are paying lesser than them. So, that is how you can reward your top performer and you can ask them, poor performer you can ask them to leave.

So, by comparing this. But in all cases, if your compa ratio is lesser than 1, then you can develop a strategy to increase ads. more than 1, right. So, that is how you can use this performance index with the compar ratio, you can compare it and you can use it in your organization, right. Now, let us come to this salary increment decision, right. For which position you want to keep the lead market salary, match market and leg market right.

So, job position wise this is the decision that you have to take right, salary increment decision that is what you have to take job position wise. So, what you can do here you have to take, so how you will take a decision that I already said key human resource. Right, who is the key human resource and availability of human resource in the market. Availability of the human resource in the market. If employees are readily available in the market then you may think about just matching the market rate.

very few people are available, then you may think for the lead market, right. So, that is how you can categorize the job into the various category and then you can decide for which job category, for which department you want to keep the lead market, match market or lag market. or for which type of employee you want to keep the lead market, match market or lag market. So, in this case you can see for this category you are deciding lag market, here may be match market and here you can say that lead market. So that is how you can decide on the basis of this performance rating who are the best performer.

So best performer are rewarded and poor performers are punished or you can say that reinforcement, the negative reinforcement that you are giving to them. So, if you want to give some more chances and you can give them and then you can make your strategy how you will improve their performance. If they are improving their performance you can think you can make the strategy for them. But that is how you can decide if these many people comes under this category and then you will put them in this particular category. Similarly, on the basis of performance rating you can make the bell curve.

And in a bell curve you can decide what percentage of people you will put under the lead category and what type of person you will put under the match category and what is the percentage of people that you will put under the lag category. So, these are the four cat and these are the four categories under which you will make the decision. Under which you, so that is how you can link with the bell curve also if your organization is using the bell curve. So, you can link with the bell curve, you can link with the performance rating, this compa ratio and then you can take a decision. And second thing that you can do, you can link this compa ratio with the department and with the job positions also.

Like for example, in pharmaceutical companies, the scientists are very important, right? So, you have decided for scientist, you will lead the market. right for marketing people you will match the market right for some other employees remaining employees you will lag the lag the market if they come they go it does not matter for you or it does not impact the your performance. If this is the decision that you feel right because I believe all employees contribute to the growth of the organization right. So, you should try to retain them and you should keep upskilling them, right. So, that is what I believe but you can take a decision based on the salary increment decision for which type of job that you want to lead the market.

So, for those type of jobs you can calculate the compa ratio and then you can based on that you can keep an eye whether you are leading the market or you are not leading the market. So, Salary component analysis that I already discussed in the previous one of the thing, but here what is the important that bonus, position, rank and that core salary. that that is what you need to so basically you if you will see in some of the companies what they give for the some of the positions they give less number less amount the fixed salary and higher is the variable right so especially you will see in the sales job. right in order to increase the performance. So, that analysis that you can do it and according as per the need of the organization and nature of the job you can decide for which job you need to give the higher amount of the variable and lesser the fixed salary and for which job you need to give the higher the fixed salary and lesser the variable amount, right.

So, that decision that you can take it this decision will vary organization to organization, job category to job category and position also. So, this is the decision, this is the analysis that you can do in your organization. I expect you would have learned some of the important matrix related to the compensation in these four sessions. So, thank you.