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**GET OFF THE
BROADBAND
WAGON**

by R. Bradley Hill

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GET OFF THE BROADBAND WAGON

Before considering a move toward employee-based pay, employers should take a second look at traditional job-based pay systems. A combination of old and new may be just what employers need.

by R. Bradley Hill

Pay for the employee or pay for the job? The debate rages on. And while a new generation of human resources (HR) managers embraces employee-based pay and criticizes the regimented job-based programs of the past, the fundamental advantages that these traditional programs are based on are being overlooked. The challenges faced today will not be solved with a move toward employee-based pay, but by more effectively defining job content and putting the "pay" back into pay-for-performance programs.

The Move to Employee-Based Pay

In response to fewer promotional opportunities caused by the de-layering of U.S. businesses, human resources professionals have sought ways to reward employees with a mechanism other than promotion. Two new ideas—both related to the notion of employee-based pay—are skill-based pay and broadbanding. These programs allow employees to increase their earnings by taking on new or additional activities.

Skill-based pay rewards employees for attaining additional job-related skills that will enable employees to perform more activities. Most popular with production jobs in manufacturing, this type of program is spreading to other employee

groups in other industries—particularly in companies that are undergoing dramatic organizational change. In addition to providing the employees with additional pay opportunities, the program benefits the company with greater staffing flexibility.

Broadbanding can simply be described as "fat salary ranges." Because the salary ranges are so fat, the organization requires fewer of them. The most frequently discussed program—at Northern Telecom—collapsed fifty-four pay grades into thirteen broadbands. Salary bands generally range in width from 60 percent to 95 percent to permit employee base pay to advance further than it could have under the traditional system. Base-pay decisions are less affected by job value, and more reflective of employee contribution.

The move to employee-based pay is strong evidence that many companies believe that without the promotional opportunities historically available, employees will become frustrated with their job. Employee-based pay offers one way to combat this frustration, but the new employee emphasis may subvert the fundamental tenets of traditional pay programs.

In Defense of Job-Based Pay

Current compensation approaches have evolved over time. The focus on the job has been introduced because it is an efficient and objective way to compensate for a set of accountabilities that have been assigned to one or more employees.

R. Bradley Hill is a senior consultant with Hay Management Consultants in Chicago. He specializes in the design of variable pay programs for manufacturing and service organizations. James J. Byrne, manager of corporate compensation at Emerson Electric Co., was a major contributor to the concepts presented in this article.

This focus allows companies to quickly compare salaries to market and to avoid the legal complexities of valuing individuals. Specifically, job-based programs offer the following key advantages:

A Simpler System. Many companies are introducing broadbanding in the name of simplicity, as fewer pay grades and fewer job distinctions allegedly yield a simpler system. However, in the absence of job distinctions, increasing importance is placed on individual distinctions. In fact, job-based systems have become prevalent because they represent a simpler alternative to considering the myriad individual characteristics that go into determining pay in an employee-based pay system.

In the absence of job distinctions, increasing importance is placed on individual distinctions.

Control Over Fixed Costs. Wider base salary ranges mean fewer guidelines and more control in the hands of line managers. In many organizations, managers may have no desire to administer pay and no skills to assess job value and reward performance. Broadbanding can be used by the mediocre manager to compensate mediocre long-service employees excessively. In many organizations, broadbanding may take away the only tools that human resources has to ensure a competitive and equitable program and to control fixed payroll costs.

Objective Job Value Determination. By focusing on the job rather than the employee, employers have sidestepped the messy issues of personality and politics in determining pay levels. The job evaluation committee's credo—"think about the job requirements, not the employee"—has historically kept this process objective.

Legal Compliance. Jobs have no inherent race, creed, sex, or demographic characteristics. By valuing job responsibility, a company overcomes any biases that could surface in examining individual capabilities.

Market Competitiveness. Most companies have traditionally done a good job of tying their schedules of salary grades and ranges to market. The creation of broad salary ranges may hurt the

FIG. 1. Example of Broadbanding

	Minimum	Midpoint	Maximum
Grade 3	\$27,800	\$34,800	\$41,700
Grade 4	32,000	40,000	48,000
Grade 5	36,800	46,000	55,200
Grade 6	42,300	52,900	63,500
Grade 7	48,700	60,800	73,000
Band 2	32,000	—	63,500

company's ability to continue to pay market rates. The company's desire to "simplify" the pay structure must be tempered with its desire to pay at market.

Companies that pay at market often place jobs into their salary grades and ranges based on the market rate of pay. A job will be slotted into the grade whose midpoint is closest to the market rate. Figure 1 illustrates what happens when traditional pay grades (grades 4, 5, and 6) are combined into a broadband (band 2). The move to a broadband system would require grouping all jobs with market values greater than \$37,400 (which is halfway between the midpoint of grade 3 and the midpoint of grade 4) and less than \$56,850 (which is halfway between the midpoint of grade 6 and the midpoint of grade 7) into band 2. By clustering such a broad range of jobs into band 2, some jobs may be compensated at the seventy-fifth percentile, while others may be paid at the twenty-fifth percentile. This phenomenon will significantly impact the ability to attract and to retain talent in many job classes.

Employee-based pay enables employees to advance according to their efforts and desires, but not necessarily in accordance with the needs of the organization. If companies are to remain competitive, they cannot afford to offer fixed pay increases to individuals who attain skills not required to perform their primary activities. Instead, they must continue to establish base compensation rates around job value and examine variable pay opportunities that compensate individuals for superior results. (See Fig. 2 for an outline of the attributes of employee-based versus job-based pay programs.)

The Job Design/Variable Pay Solution

Paying for the job instead of the person makes good business sense. However, some companies have defined jobs so rigidly—leading to the "I

FIG. 2. Employee-Based Pay vs. Job-Based Pay at a Glance

Pay Program Objectives	Ability to Meet Pay Program Objectives	
	Employee-Based Pay	Job-Based Pay
Communicability	High	Medium
Consistency	Low	High
Cost control	Low	High
Flexibility	High	Low
Legal compliance	Low	High
Market competitiveness	Low	High
Objectivity	Medium	High
Simplicity	Medium	High
Time demands on HR	Low	High
Time demands on managers	High	Low

won't do it because it's not in my job description" mentality—that job descriptions serve to stifle the potential contributions of incumbents. The way to unleash employee contribution is to redesign jobs, train employees to perform in a broader capacity, and reward employees in direct proportion to their contributions. Instead of changing to an employee-based pay program, consider the following actions.

Define Responsibilities, Not Tasks. In many organizations, job descriptions provide a detailed litany of day-to-day tasks, as well as specifics on how to perform those tasks. This may prevent employees from creatively meeting or exceeding expectations. The organization may be better served by defining the responsibility and then letting the employee define the methods and activities necessary to fulfill the job's responsibilities. (See Fig. 3 for a comparison of a traditional position and a new position.)

Follow Job Design and Training With Compensation Plan Changes. Compensation programs should be designed to support organizational change, not to initiate it. Organizations believe they will be more flexible and efficient with fewer job distinctions. The move toward fewer job distinctions requires training employees to serve in a broader capacity, not reducing the number of grades and titles. After employees have been properly trained in their new job responsibilities, the grade and title of their new job can be reviewed and assigned.

Use Base Pay to Reward Basic Contribution. The base pay system is intended to assist the organization in administering its fixed costs. The fixed

cost for a job should relate to the expected level of contribution for an area of responsibility. Organizations must depend on some basic level of contribution related to a specific function to operate efficiently and successfully.

Does this mean that everyone should go about their job with tunnel vision and not seek to contribute outside their area of expertise? No. What it means is that everyone has primary areas of responsibility that constitute their job. Employees are expected to devote most of their time and energy to fulfilling these responsibilities, improving the activities that help them to fulfill these responsibilities, and understanding how these activities fit into the company's overall success. For this, they earn their base pay.

Use Variable Pay to Reward Individual Results. Companies cannot continue to reward employee efforts with base salary increases. The increases are only appropriate reward mechanisms for permanent advancements in skills and abilities that necessarily dictate higher levels of contribution throughout the employee's career (e.g., advancements in the training or new-hire stages). The degree to which individuals contribute above the expected level is variable—dependent on the incumbents' skills and efforts. Rewards for exceeding expectations should also be variable and dependent on results. More skills may contribute to better results but will not ensure them. An employer should not pay for the existence of knowledge and skills but instead for the application of knowledge and skills that results in higher levels of productivity. Variable pay must begin to play a larger part in the total pay equation if companies

FIG. 3. Comparison of Traditional Position Profile and New Position Profile for Programmer/Analyst**Traditional Position Profile: Task-Oriented**

- Encodes, tests, debugs, and installs operating programs and procedures in coordination with the computer operations and user departments.
- Prepares detailed flow charts and diagrams outlining systems capabilities and processes.
- Develops, tests, installs, and modifies computer software, such as operating systems, compilers, utilities, multiprogramming, and telecommunications systems.
- Establishes machine schedules to obtain maximum utilization of equipment and personnel. Prepares equipment utilization reports as required.
- Maintains and modifies existing operating systems to obtain maximum efficiency.
- Obtains detailed specifications from user to ascertain specific output information requirements.
- Analyzes and evaluates existing or proposed systems and creates computer systems to process data.
- Researches new developments in hardware and software. Keeps abreast of latest developments and studies regarding effective procedures and methods in software customization.
- Recommends the type, size, and configuration of data processing equipment within the limits of corporate policy.
- Provides technical assistance to staff including interpretation of specifications.
- Accompanies systems analyst to user meetings. Participates in meetings by asking questions.

Note: All activities for the traditional position profile are from Wyatt's *Description Manager Plus* programming/systems analysis accountability statements.

New Position Profile—Responsibility-Oriented

- Designs and implements hardware and software modules. Solves problems that have been stated and defined. Makes decisions or recommendations that may require interpretation of policies or regulations or some creativity, but must be made within preestablished technical guidelines or project parameters. Fixes moderately complex bugs.
- Provides technical direction. May lead design activities for a medium-sized project.
- Develops plans with realistic project schedules and resource usage. Modifies plans to adjust for unforeseen situations. Handles complex projects simultaneously.
- Works with other design, development, and testing organizations to achieve objectives. Actions often affect others outside the immediate work area, project, or department, and may have a moderate effect on the timeliness or quality of results.
- Communicates with others to exchange and verify information and to coordinate activities and information. Assists others with or reviews project documentation. Occasionally has contact with others outside the company. Researches and analyzes information concerning markets or relevant products and technologies.
- Handles independent and complex design responsibilities or assists others with design problems. Position has some latitude with approved guidelines or projects to meet goals and strategies for a department or group. Work is typically reviewed at the manager level.
- Requires knowledge of software and/or hardware technology and development lifecycle. Relies on technical advice in several systems areas. Responsible for independent product development. May occasionally be called on to help address a customer problem in area of expertise.

intend to pay for performance and tie pay more directly to contribution.

These actions will help an organization to achieve the goals of breaking down job barriers, encouraging broader employee contribution, and increasing work force flexibility while maintaining programs that are internally equitable, externally competitive, legally defensible, and cost-effective.

A Workable Solution

Employee-based pay programs rely heavily on the talents of line managers and place at risk the company's ability to maintain an internally equitable, market-competitive, legally defensible pay

system. The flexibility and efficiencies gained by fewer job distinctions are achieved by redesigning jobs and training employees to serve in a broader capacity, not by tinkering with the salary structure.

Companies will always have a need to control fixed salary costs in the form of base pay. As such, jobs should be compensated according to their expected contribution levels, which should not have an extremely broad range. Individual employees, on the other hand, may perform significantly above or below the expected contribution level. The employee performance variable will be influenced by individual skills and efforts and should be rewarded through variable pay to the extent that actual results exceed expected results. ■