(b) Overview of the Base Pay Design Alternatives

To a great extent, the design range for base pay linkage can be seen as an innovation continuum that ranges from relatively traditional to radically new. This design continuum begins with applications that remain close to traditional job-based systems. In these examples, competencies serve essentially as a fine-tuning mechanism, helping determine where each individual's salary level should be targeted within narrowly defined job salary ranges. The dominant salary driver in these situations remains the person's job assignment and the external "going market rate."

At the next level of design innovation, competencies are linked to base pay structures containing wide ranges generally called *broadbands* or *broad grades*. These broadbands are constructed from external job pricing, but the bands encompass entire job families or broad responsibility levels within an organization. From a competency standpoint, their innovative aspect lies in the tighter linkage developed between competency assessment ratings and individual salary adjustments. This connection occurs through the organization's formal salary adjustment guidelines. These guidelines are designed so that the size of salary increases depends largely on the person's competency rating. Other factors play a role in salary adjustment decisions as well, but the competency rating is used as a major determinant.

At the most innovative level, competency ratings are used as the driving force in setting the absolute level of an individual's base pay rate. The focus of these approaches is on paying the proper base pay level in absolute terms, rather than simply determining the next pay increase. These base pay applications structure the competency rating scale so that it runs parallel to each salary range, again defined as broadbands. Individual base pay levels are then established and adjusted to match the advancement or decline in a person's assessed competency level over time. For example, as a person's competency rating increases, his or her relative position in the applicable broadband increases similarly to maintain alignment between these two factors. A person may also experience interband movement, shifting from one broadband to another, but these shifts are relatively rare and are often accompanied by a change in the competencies for which one is being assessed. More specific details on these design parameters are presented in the following model descriptions.

(c) Models for Base Pay Linkage

(i) Model 1: Competencies Within a Job Grade Structure In this first model, the linkage between base pay management and competencies is structured in a relatively simple format. The connection occurs through the company's performance appraisal process, with competency ratings introduced as an extra evaluation element and the overall appraisal then used to target a person's base

pay level within a particular job grade. The pay emphasis in this approach remains clearly on the market value of the job, with some narrow latitude in the job range to recognize differences in proficiency and results produced.

Implementation of this type of model can involve either of two alternative pay structures: a job range framework with three target segments in each range or a "position rate" system consisting of three preset rates. Exhibit 4.5 presents examples of these two approaches for a hypothetical pay grade, including the descriptive guides that help a reviewing manager decide what pay level within the job range is best suited to a person's proficiency and results. For both approaches, the role of competencies is generally a subjective one that combines with more results-oriented factors to guide the salary decision-making process.

(ii) Model 2: Competencies as a Salary Increase Factor Within Broadbands In the second model, competencies take on a larger, ongoing role in base pay decisions. This expanded role involves a variety of design features but typically centers on linking competency ratings explicitly to salary adjustment guidelines in a broadband structure. In these programs, broad salary bands represent a basic shift from a traditional hierarchy of narrow job ranges to a lateral progression opportunity structured by wide organizational layer or job family. As a result, while these salary systems still rely on jobs to price the bands and assign people into bands, competency ratings are given a major salary decision-making role.

Development of the Broad Pay Bands When setting the minimum and maximum rates that define each broadband in this type of model, the minimum is

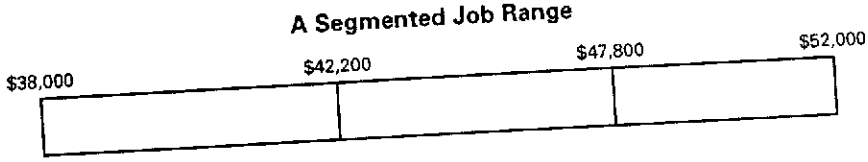
Exhibit 4.5 Two Examples of Competencies in a Job-Based Pay Structure.

Development Zone
- Recent promotion or new hire
- Essential qualifications for position
- Extensive development opportunities

Market Target Zone
- Full mastery of assigned responsibilities
- Performance consistently at or above expectations
- Effective in most critical competencies

Premium Zone
- Sustained exceptional performance
- Continued stretch contributions
- Role model in many critical competencies, strong in all

A Segmented Job Range



A Position Rate System

Developing Rate	Fully Proficient Rate	Advanced Rate
$40,000	$45,000	$55,000

typically intended to align with the average entry salary for the lowest-paid positions in the band and the maximum is matched to the 90th percentile of pay for the highest-paid positions in the band. This approach ensures that a fully competitive pay opportunity is available for all positions in a particular band.

Within the salary band structure, additional pay guidelines are typically defined by three sequential segments, or "zones," within each range. These are generally designated zones 1, 2, and 3. The purpose of these internal zones is to provide additional guidance for individual salary placement and periodic adjustments. To price the control points for these internal zones, the benchmark jobs within each job family or organizational layer are grouped into three levels that represent stages in the natural career path and progressive stages in knowledge and skill requirements for the function or layer. The three groupings consist of entry or basic jobs for zone 1, intermediate-level jobs for zone 2, and advanced jobs within the function for zone 3. The upper end of each zone is then priced to approximate the average median market rate for positions that match the knowledge and skills targets for that zone as the start of their pay range. For example, using the benchmark positions that are at the first level of a professional family, the top of the first zone of that pay band approximates the average of median pay rates for that set of positions. The one exception to this market relationship occurs at the top of each broadband, which coincides with the top of zone 3. To provide a fully competitive base pay opportunity at this advanced level, the top of the band is positioned using 90th percentile data for the advanced jobs in the applicable function. In most cases, the company has multiple functions or job families that are covered by one shared broadband. These zones are then priced as a blend of the applicable median market rates for that set of functions.

The basic structure of this model involves adding competency assessment results to the individual evaluation process and then using this broadened appraisal content to guide periodic salary review decisions. Exhibit 4.6 presents two examples of different salary adjustment guidelines developed by organizations that have adopted this model.

The first guideline in Exhibit 4.6 has been implemented in base pay programs that remain largely job based. Within this context, the pay controls for each job are derived from external market pricing (using benchmark matches), and the resulting market values are then used to construct broadbands distinguishing groups of jobs by job family or organizational layer. The competency linkage is then structured into the salary adjustment guidelines that cross-match a person's competency rating with a personal output rating for the same period. This cross-match generates a dollar adjustment guide for the person's base salary review. The relative weighting intended for competency and output measurement can be captured in the pattern of dollar values contained in the guideline matrix. Because the banding structures have relatively few levels, a dollar-based set of guidelines can be communicated and administered without undue complexity.

Exhibit 4.6 Salary Adjustment Guidelines—Two Examples.

Salary Increase Guidelines with "Core" and "Stretch" Zones

ANNUAL REVIEW GUIDELINE
Individual's Current Range Placement ($)

In Core Zone

Overall Results Rating	0.00	1.00	2.00	3.00	4.00	5.00
5.00	$0	$3,762	$4,543	$5,486	$6,625	$8,000
4.00	$0	$3,115	$3,762	$4,543	$5,486	$6,625
3.00	$0	$2,580	$3,115	$3,762	$4,543	$5,486
2.00	$0	$2,136	$2,580	$3,115	$3,762	$4,543
1.00	$0	$1,769	$2,136	$2,580	$3,115	$3,762
0.00	$0	$0	$0	$0	$0	$0

Overall Competency Rating

In Stretch Zone

	0.00	1.00	2.00	3.00	4.00	5.00
5.00	$0	$2,725	$3,771	$5,220	$7,225	$10,000
4.00	$0	$1,969	$2,725	$3,771	$5,220	$7,225
3.00	$0	$1,422	$1,969	$2,725	$3,771	$5,220
2.00	$0	$1,028	$1,422	$1,969	$2,725	$3,771
1.00	$0	$743	$1,028	$1,422	$1,969	$2,725
0.00	$0	$0	$0	$0	$0	$0

Overall Competency Rating

Over Stretch Zone

Lump sum equivalent to half of Stretch Zone rate increase

Salary Increase Guidelines with a Competency Indicator

Person's Overall Competency Rating = 2.4

Weighted Behavioral & K/S Rating 2.4

Band F

0 $27,000

5 $56,800

Zone I

Results Assessment	0	1	2	3	4	5
5	$500	—	$2,000	—	$3,500	
4						
3	$0	—	$1,500	—	$2,000	
2						
1	$0	—	$0	—	$500	
0						

Competency Assessment

Zone II

	0	1	2	3	4	5
5	$0	—	$3,500	—	$6,000	
4						
3	$0	—	$2,500	—	$3,500	
2						
1	$0	—	$0	—	$0	
0						

Competency Assessment

Zone III

	0	1	2	3	4	5
5	$0	—	$5,000	—	$8,000	
4						
3	$0	—	$3,500	—	$5,000	
2						
1	$0	—	$0	—	$0	
0						

Competency Assessment

An additional policy concept reflected in the first guideline in Exhibit 4.6 is the concept of "core" and "stretch" pay zones. The "core" and "stretch" system divides the base pay opportunity for each job in much the same way as market midpoints have often been employed in traditional job grades. The "core" segment is intended as the pay opportunity for employees who are developing their performance in the basic job up to a fully proficient level. The "stretch" segment

is for employees who are extending their job contributions beyond the basic job to achieve full mastery of a work role. When a broadband is constructed for a job family, the result is typically to have the "stretch" zone for one job in a career path overlap with the "core" zone for the next job in the career ladder. The structure of the salary adjustment guidelines links to this two-zone concept through the pattern of percentage or dollar increases within each matrix. The salary management principle they reflect is that pay advancement above a market average should involve competency and output levels clearly above the standards that apply below the market average for a job.

The second guideline in Exhibit 4.6 reflects an expansion of the role of competencies in base pay decisions. This approach replaces job-based adjustment guidelines with a policy structure that uses the employee's competency rating to indicate what increase matrix will apply to them in their band level. In essence, the competency rating is used as an indicator for the person's most appropriate increase opportunity. For example, a high competency rating leads to the largest increase opportunity, whereas a low competency coincides with the lowest opportunity, without regard to the employee's current salary position in the band. Organizations that use this guideline have included both behavioral competencies and knowledge and skill elements in their assessment model.

(iii) Model 3: Competencies as the Salary Placement Factor Within Broadbands Companies that adopt this approach typically have more generic work roles that are different from traditional job-based structures. Within these organizations, stable "jobs" have largely been replaced by a more diffuse and dynamic concept of "work roles" or "process roles." To align with these changes, base pay administration is reorganized around competency profiles that are customized for each work role. In some sense, competency profiles substitute for the traditional concept of a job. Each competency profile has two components:

1. *Technical or functional know-how categories:* primary area and collateral areas (typically 1 or 2).
2. *Behavioral attribute categories:* selected from the relevant behavioral model.

In this environment, people still possess a primary area of technical/functional expertise but also need one or more collateral know-how areas to handle their multifunctional roles. For example, mechanical engineering could be the primary expertise for a role, but the role would also require significant marketing know-how. At other times, the collateral know-how may shift to product design knowledge or involve purchasing and inventory management. People in this more flexible work environment are expected to steadily increase their core know-how, while also acquiring and applying skills and knowledge within relevant collateral areas.

The know-how portion of the competency profiles is typically defined by a job family or function to capture the distinctive skills and knowledge for that function. Other generic categories of skill and knowledge, such as computer literacy, relate to employees across multiple functions. In these competency-based programs, even managerial roles can follow the same structure. Exhibit 4.7 illustrates a complete set of technical/functional know-how areas defined by an industrial equipment manufacturer for one product line division, along with a sample of four know-how profiles adopted for specific work roles within that organization.

The model shown in Exhibit 4.7 combines the knowledge and skill components of the competency profiles with relevant high-performance behaviors. These behavioral competencies are as fundamental to the definition of a work role as the knowledge and skill categories. Through these high-performance behavioral attributes, the relevant knowledge and skills are integrated and applied for top performance in a given work role.

A work role (and corresponding competency profile) may apply to a single person or to several employees where there is a high commonality to their assignments. Unlike most job descriptions, these profiles are regularly rechecked, typically on an annual basis, to monitor changing work requirements. This does not mean that the competency profiles change annually, but there is an organizational commitment to keeping them up to date because they serve as the assessment structure for developmental feedback and eventual reward decisions.

Exhibit 4.7 Examples of Technical/Functional Competency Structure in Pay Model 3.

Technical/Functional Competency Areas

Product Design	Finance/Accounting
Shop Operations	Engineering
Administrative Support	Customer Service
Purchasing/Inventory	Sales/Marketing
Drafting	Production Supervision
Management	Drafting

Sample of Know-How Profiles
(single and multi-incumbent roles)

Primary Function	Collateral Function(s)
Work Role 1: Customer Service	Purchasing/Inventory
Work Role 2: Engineering	Product Design, Sales/Marketing
Work Role 3: Administrative Support	Customer Service
Work Role 4: Management	Engineering, Drafting