

# FIA

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## Broadbanding Issues and Techniques

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The economic changes occurring in the late 1980s and early 1990s, coupled with the changing demographics of the American workforce, have driven many organizations to reexamine whether their pay systems allow them to respond effectively to competitive pressures. Issues such as dissatisfaction with complex job evaluation systems, the need to retain top contributors, pressure to eliminate management levels which do not add value, changing demographics in the workforce, and development of a more skilled and versatile workforce have sent organizations in search of a "magic bullet" compensation system to address these matters. Broadbanding has developed as a response to these issues and has become one of the most talked about and debated topics in compensation.

Broadbanding, in simplest terms, is the consolidation of traditional salary grades into a small number (typically 5-10) of wide (100-150%) salary or pay bands, with managers having a great deal of discretion in employee pay decisions. Unlike traditional pay systems, broadbanding provides greater flexibility to operating managers to recognize individuals for their contributions to organizational success and to act quickly in response to changing priorities and workforce demographics. Perhaps more importantly, broadbanding is seen as an approach to create and support culture change in re-engineered, streamlined and customer-focused organizations.

This newsletter will introduce the concept of broadbanding.

### **What is Broadbanding?**

Broadbanding is a simply a new format for a wage or salary structure.

Banded programs are characterized by a reduced number of salary grades and ranges with wider salary ranges. The traditional salary structure

typically ranges 25-50 percent in width from minimum to maximum although it can be as narrow as 15-20 percent wide. With traditional structures, the difference between ranges is typically 5-10 percent resulting in pay structures that contain anywhere from 20 to 40 pay ranges — although we have seen structures with differences as small as one-half of one percent resulting in structures with literally hundreds of pay ranges.

Banding represents a dramatic shift in salary management.

### **Background**

The Broadbanding concept was developed in 1980 by the US Navy as part of a Navy Demonstration Pilot Project. The concept emerged in the private sector in the early '90s in response to re-engineering and competitive labor market requirements and has been used by some of the largest and most sophisticated corporations in America.

The current popularity of the concept is associated with grade/salary range streamlining and additional pay change flexibility in order to give managers more direct control over the resources allocated to their function. Although widely viewed as positive, broadbanding experience is still developing and is not a "cure all" for classification/compensation reform. While the concept has worked well in many organizations, it has also been less than successful in others for a variety of reasons.

### **Banding is Organizational Change**

One of the hardest issues to grasp is that implementation of a broadbanding pay structure involves significant organizational change. Banning diminishes the importance of job "measurement." The traditional job-to-job comparisons are less

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**FOX LAWSON & ASSOCIATES** LLC  
COMPENSATION AND HUMAN RESOURCES SPECIALISTS

Offices:  
1335 County Road D. Circle East  
St. Paul, Minnesota 55109-5260  
Phone: 800-383-0976  
Fax: 651-635-0980  
E-mail: [jfox@foxlawson.com](mailto:jfox@foxlawson.com)

P. O. Box 32985  
Phoenix, Arizona 85064-2985

Phone: 602-840-1070  
Fax: 602-840-1071  
E-mail: [blawson@foxlawson.com](mailto:blawson@foxlawson.com)

important. They can still be used but their role is more limited to what portion or segment of a broad band is available for individual positions. Now, narrow differences in jobs are less important.

Managers assume more responsibility for salary management and must then be held accountable for managing their resources to an established budget.

Reorganization is easier because jobs are less likely to move up or down in the salary grade structure. One fundamental change is that adjusted duties do not give the job higher or lower economic value to the organization. The employee should not expect to receive pay increases simply because he or she performs different duties.

#### **The Starting Point – A Traditional Salary Structure**

We first need to understand the existing structure and associated decision systems. Traditional structures were designed with boundaries or parameters for every defined job. Control of the pay system typically rested with the Human Resources Department and not the operating managers.

Banding represents a significant change. Designing a replacement structure requires decisions about how salaries will be managed. This involves several key strategic issues including relative relationship of individual salaries to the labor market, as well as other salaries within the organization. For example, what part does performance play in the compensation program versus tenure or longevity? How does the compensation program affect your ability to recruit and retain employees you will need to achieve organizational objectives in the 21st century?

#### **Broadband Example**

In a simple example, three to five current pay ranges are grouped into a single pay band. The net effect is to consolidate a large number of salary grades into a much smaller number of bands. The bands are considerably wider (100-300%) although the actual range of pay opportunity for an individual employee may be limited to only a segment of the new band. The focus in broadbanding becomes the economic value of the work performed and not a formal job classification that may limit an employee's career growth opportunity.

#### **Implications for Public Pay Programs**

Internal equity has been a core public sector compensation belief.

Most banding has occurred in non-union environments although the concept has worked very effectively in union environments when combined with pay delivery mechanisms such as skill-based pay or competency models such as clinical ladders in Nursing.

#### **How We Can Assist Your Organization**

We understand how various types of pay delivery systems work in public sector organizations and the strengths and weaknesses of the various approaches. While Broadbanding can be an effective tool, it is not appropriate for all organizations.

For the past 25 years, we have been working with some of the largest and some of the smallest public and private sector organizations throughout the country to review and recommend classification, compensation, job evaluation and performance appraisal systems.

So if you would like help assessing your compensation program, consider calling us at 800-383-0976. Press 12 for Jim or 20 for Bruce.