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"…and the <u>other</u> choice is a slow, painful death."

SUPPORT SYSTEMS FOR SKILL-BASED PAY

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(excerpted)

Support Systems For Skill-Based Pay

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Abstract
Tying compensation to job skill acquisition sounds like a good idea, and it can be. Companies need to look at the full range of support it takes to provide the intended incentive and shape the desired team performance. Without well-considered support systems in place, most of the value of skill-based pay can leak out, system administration can choke a company and the pay system can become a <u>dis</u>incentive or a dash for cash.
Among the supports needed are:
- *Top-level sponsorship based on a thorough costs/benefits analysis and a five-year reward horizon.*
- *Work methods and software support to manage the sizable task analysis and skill definitions process.*
- *A comprehensive implementation program that includes role training, performance aids and communications.*
- *Process facilitation and shaping approach behaviors.*
- *Methods and training for skills verification.*
- *Comprehensive skills training.*

Expectations

Skill-based pay. Intuitively it sounds like a good idea--tying compensation to job skill acquisition. It's very popular. Last year *Compensation & Benefits Review* reported that 60% of the Fortune 1000 firms were using some form of skill-based pay.

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On the positive side, skill-based pay brings productivity, profitability, team success, competitive advantage, more pay and greater job satisfaction.

Companies use skill-based pay not only as an incentive for team members to **broaden and deepen** their skills, but specifically to **dovetail those skills** with company needs. With more skills and more knowledge of company objectives, personnel become more effective team players ... resulting in a higher level of self-management and a better pay out from TQM initiatives.

Companies reported measurable benefits of:
- Improved workforce flexibility
- Faster production changeover
- Simpler administration
- Improved efficiency
- Improved product quality
- Greater success in recruiting top-level technical talent

The bottom line, according to various articles, is that SBP makes a company more competitive in a changing, demanding marketplace…This sounds like the best of all possible worlds. Our glittering star, skill-based pay.

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But there's another side to this, and it looks a little more ominous. Think about it. Even if we accept the optimistic estimate that 75% of the firms rated their programs effective, that means one in four programs had problems of one sort or another.

So what are some of the negative opinions voiced about skill-based pay? Managers expressed concern that higher pay rates would remain even if a company chooses eventually to terminate the program. Training

expenditures can increase and productivity can drop while team members are in training.

Team members may harbor general suspicions of skill-based pay as management's attempt to get **more work** out of **fewer people**. And, how do you establish a fair price for their increased skills? How will you manage all these skills you catalogued and how do you keep this roster of skills current?

…Of course, you have to deal with the fact that skill-based pay threatens the established power structure as a great deal of decision-making authority shifts to the teams.…And you may be looking at a long commitment before reaping benefits-- in some cases, at least five years.

In our own experiences, we have dealt with employee retention problems — desertion from teams and from the company. We've seen a collapse in morale in the form of whispering campaigns, grumbling, and setting up advocates of the program for failure. We've had staff ignore procedures, corrupt the certification process, and create a slowdown engendered by fretting and resentment.

Keep in mind that these concerns also apply to successful initiatives ... not just those that don't make it. For instance, higher overall pay rates is normal in even the best SBP shops. But that's not so scary if you're getting something for your money - like increased productivity. Also, training needs increase under SBP. But again, that's offset when more effective teams produce better products, faster. The question is, "Are you satisfied with the system you've now got in place? "

You need to create legs, support systems so this thing is steady and self maintaining. Until you build your foundation, you can't be sure what you'll get.

Support One: Management Analysis and Resource Commitment

The cornerstone of this foundation must be an honest assessment. Skill-based pay is a vehicle you want to know very well before you suggest buying it…In other words, does it fit your company? Can you see the exact ways skill-based pay can improve financial performance? Does your company have the money and resources to implement skill-based pay? Is your work force and corporate culture ready for this kind of program?

And, if you decide skill-based pay fits your organization, the best way to cement this cornerstone is through steady commitment and active advocacy. And the best way to create advocacy is through clear plans that show the true costs and express the realizable benefits to all involved…Costs to initiate and administer a skill-based pay program are sizable. But if the system works, expenditures buy explicit benefits.

Also, remember that most costs do not mean just the purchase of consulting and outside resources. Many of the budgeted dollars represent a dip into your manpower pool. Your managers and team members have proprietary knowledge critical to the success of skill-based pay. You can't buy that knowledge outside. Your management and teams are the cadre that will implement your program.

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The theory behind skill-based pay sounds good. But theory doesn't get things done. You have to see how it will play out. You have to define the explicit pathways by which skill-based pay will provide the anticipated benefits. Here (is one of several) examples:

Predict Savings
By supplying improved mechanical diagnostic skills in these 30 teams on drilling rigs in the Gulf of Mexico, we can reduce the number of helicopter flights by 300 per year. At $5,000 a

trip that represents a <u>savings</u> of $1.5 million a year.

You have to estimate all the costs associated with each phase of the program. Internal costs have to be figured along with external expenditures... What you need is a business model—an explicit plan to reap value from pre-defined expenditures. It looks at everything on a cost and value basis. It identifies all inputs… all outputs…and the mechanism by which one produces the other.

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As with any change, skill-based pay stirs up things. It goes right to the heart because it messes with pay! It changes a comfortable routine and you need to assess the company's readiness for change. Skill-based pay can't be the management flavor of the month.

You need to do this analysis, be just this explicit, to develop a bulletproof plan. Then, and only then, do you put it up for approval. And this approval and commitment must be based on full awareness of the risks, the costs, the time commitments and the pay out thresholds.
…With your plan in hand, you can monitor and measure program success along the way. That way people can see the predicted progress unfolding. That builds faith in the plan. And that's where you want people's faith—in the plan, not in your say-so.

So on board means full knowledge, awareness of readiness issues, a bulletproof business plan and active advocacy.

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At the risk of being repetitive, I have to stress the absolute importance of a plan to manage overall compensation costs of the program. Otherwise, the program can get out of control. Here are two extreme scenarios. In one case, advancement is so difficult that employees become frustrated and just give up. At the

other extreme, there is no control over who gets what skills. In a short time, everyone is in the top wage bracket…and they can get very frustrated when they don't see further opportunity to increase their income.

What can you do to create a balanced scenario? Need is the best guide -- local need and strategic need. Local need refers to the immediate skill needs of the group in which a team member works…Strategic need refers to the longer-term company staffing objectives at all levels. Strategic need also refers to identifying new skills in anticipation of new technologies or new work methods.
There can be a progression to skill acquisition. Certain skill sets qualify team members for advanced positions. Typically, the higher the level, the scarcer the number of positions available. Limiting advancement to need can act as a gate, governing acquisition of skills for advanced positions.

Support Two: Skill Definitions
Skill definition is the **heart** of the pay program. Accurate, relevant skill definitions are absolutely essential. Your company is making a substantial investment in developing new behaviors, and this is where you establish the standards. Success in defining skills will determine whether you get true value for your investment... or whether you just spend a lot of money on an idea.

The quality of skill definitions is important to the program in many ways. Clear definitions are critical if you are to effectively direct the learning of the organization. They are what the company uses to communicate expectations to team members and to training developers.

Clear skill definitions are critical to acceptance of the program. Team members need to see that their pay is based on **fair** and **relevant** requirements. They need to see that verification of skills will be based on clear expectations ... uniformly applied.

Clear definitions are critical in developing efficient, relevant training. You can control the cost, as well as the effectiveness, of your training program with the precision of your definitions.

Skill definitions affect:
- your ability to capture the maximum value of the program
- employee acceptance and involvement
- the focus and efficiency of training

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… as a team member **or** as an HR representative, you have pretty much the same concerns with skill-based pay:
- Skill objectives must be **relevant** and significant - representative of the real work and not some external expectation.
- Skill objectives must include the **complete** spectrum of all important skills for which team members expect to get paid.
- Skill expectation, certification and testing must be **fair** to all employees.
- All requirements of the program must be applied **consistently** ... within and across the teams.

We've created a skill-based pay constitution ... our mantra... four simple words that are the acid test for **every** aspect of the program:
- *complete*
- *consistent*
- *relevant*
- *fair.*

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So what do <u>clear definitions</u> look like?

…Here's (a common approach to) defining a skill: "A mechanic can repair a compressor." If you were running the program, you'd probably want to be more **specific**: "A mechanic can replace the piston, rings and valves in an Acme 30-10 reciprocating compressor."   Is that something you'd pay

for? …A skill definition states an **observable, measurable activity**.

…(The addition of) performance standards and conditions increase the precision of our skill definition. The team member and the certifier both know **exactly** what is expected of a competent team member.

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So where do we get descriptions of skills? Here are four ways we've seen it done:
1. Company management identifies the skills they want team members to have.
2. Developers review text books to identify relevant skills.
3. Outside consultants identify skills they think the team should have.
4. Team members identify the skills they use to perform work.

…In a functioning organization, the **team** knows more about its work than any other source. And that's the source we use.

Using team members to define skills validates the program in the eyes of both management and team members. It's the way for management to prove you are not creating irrelevant or artificial restraints to advancement or pay. It's the way for team members to get credit for all the many skills they employ on the job. Thus, our reasons for using this technique are very practical. The team is the best source of information. By reviewing the work as a group, the team can identify **best practices** for skill-based pay… "the actual work a person does is the best source of information about how that work is done."

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… we need to examine the work in detail - to itemize and describe all tasks performed by the team members. Tasks are a means to an end: From our task analysis flows the essential

information we use to identify the skills necessary to perform the work. But the task listing can also have an independent value in work analysis, as we will describe later. For any purpose, it is important that the task analysis be rigorous and that the task descriptions be clear.

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As you can imagine, this kind of analysis can produce a lot of data. And how it is captured is very important. We use a computerized system. It permits input of the task and its associated attributes.

The database can produce reports in a number of formats - each customized according to the analytical process… The database approach is essential: Upwards of 16,000 tasks may be identified and examined for essential skills. Word processing is much too cumbersome to manage that data, especially if you want to re-categorize or revise on the fly… As with any system, what comes out can only be as good as what goes in. Accurate, relevant, verifiable skill definitions are the linchpin of the process.

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With the task analysis complete, we investigate individual tasks to find the core skills. Performing a task generally requires several skills rather than a single skill. *Our distinction between the task and the requisite skills within the task is a substantial refinement of traditional analysis techniques*. And here's the rationale for our methods.

Teaching specific skills rather than task procedures eliminates a lot of wasted motion and duplication in training. And since many times a particular skill is used in a variety of tasks, why teach that skill repeatedly each time it occurs in task procedures? …The idea is to concentrate on giving the team members the tools (skills) with which to complete the procedure. The team member can follow the

written procedure and select the requisite skills from his or her inventory of certified skills.

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…We've seen how skill definitions are derived from the task analysis and why the skills must be described very explicitly. We've provided examples of how skills are the building blocks of performance, and procedures are the blueprint. …The big payoff? Streamlined, sharply-focused skills training and how it benefits the team members, the training developers, and the managers who must sign the checks to finance the company's investment in training.

Support Three: Strategic Training Redesign

…Even if you have taken great care with proper communications and have introduced skills, the moment hits when a team member has the specifications in hand and asks "How the heck am I going to get from here to there?" …Just the skills requirements of a program, alone, can seem overwhelming. And the amount of personal development that goes into satisfying these requirements can seem an impossible burden.

You need a very focused, guided training program and methods to help quell anxiety and put the task of learning in perspective. If it is not there ... if it doesn't work ... you face (a multitude of) problems…To make a skill compensation program work, you need to train the workforce. That's a simple, solid fact.

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So the bad news is that you are facing a very sizable expenditure for training. But that's also good news. Because if your organization is like most, there are real opportunities to derive a tremendous payback from training redesign. One client estimated that just the reduction in the cost of training delivery could pay for the cost of task analysis and training redesign.

And that's before you reap the benefits of a more effective training program.

Here's how this can work. For managers, it can give you real control of training costs. For training managers, it can produce a significant alignment with corporate objectives which can eliminate much of the budgetary pressures that training typically faces. It provides team members with specific skills training and eliminates time spent on irrelevant, redundant and "nice-to-know" training.

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Typically we train people for three things: what they need to know; what they don't need to know; and what they already know. Skill-based pay provides you with a powerful tool to analyze and focus training—the very specific skills definitions that are the result of a thorough task analysis. You'll have a coherent description of the skills your team members need.

The skill definitions serve as a screening device. You can evaluate the relevance of any course, sections of a course, or a single training activity. If any part of training does not directly support the acquisition of one of the skills in your skill profile, there is no need for that activity…Take a course outline. Check it against the list of skills. Look at each item in the curriculum and ask yourself, "Which skill does this teach?" If you can't associate a lesson with a skill, dump it. The business cycle is too short for "nice-to-know" information.

You can use this same technique with each of your training activities. And when you are done, you only have relevant materials.

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Now, the next step is to eliminate redundancy. You are probably going to find that you have different skills linked to a number of training activities...At the conclusion of this exercise, you'll undoubtedly have skills left on the list

that haven't been linked to any existing training. These are the deficiencies, skills the team members need to do their jobs but for which they haven't been trained.

With this kind of analysis, you can put your training activities on a real diet. In some companies, we've seen the number of items reduced by two thirds. Not a bad management tool.

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Sophisticated software makes this kind of analysis feasible. The skills and resources are linked very specifically...One is a report of all materials that teach a particular skill…(A mirrored report) shows which skills are taught by each linked resource. It's easy to see which resources give you the most for your money.

Let's take this process a step further. We've identified the resources for each skill. If you add instructions and review questions to each resource, your linking report becomes a training guide…This is a quick way to put together a more focused curriculum from existing materials.

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There are a wide range of new training requirements that you need to satisfy. These training requirements have always been there because they are needed in the work you do. They just haven't been out in the open.

…Now you may think, it's really going to cost to fill in the gaps. But note that we call this part of the process training RE-design because, quite often, you already have the resources to manage most of your training needs. You have procedures, process diagrams, equipment manuals, and even equipment sales literature and third-party training catalogues…By using the same screening process and applying it to these additional information resources your company has or can access, you can create

skill-by-skill learning activities at a minimum cost.

…the linking can streamline training. The resources and training instructions are tied to skills, then published in skill groups. A team member can look through the training guides and select the specific skills on which he needs training. He orders just those materials. And completes that skill training. He doesn't worry about studying for the skills he already has and for which he already can certify. That is how you can address the issue of eliminating training on the things someone already knows.

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This methodology also can reduce the cost and time of on-the-job training …because OJT now can be focused on a tightly-structured activity to learn a very specific skill.

You can easily set up OJT like a training activity as a part of the training redesign. You have a specific training goal—the skill objective. You define a work activity, the OJT action. And you provide a precise description of the critical things to look for—the performance standards. You enlist a competent team member to lead the activity. With focused activities such as these you control OJT expenditures and effectiveness.

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By the way, all these techniques work without a formal skill-based pay program. The program just helps to bring together all the operational elements.

Support Four: Certification
…So what's the big deal with certification anyway? It's a big deal because it is the only way you are going to make sure you get something in return for the incentive pay. It establishes expectations and consequences. And it's the only way to verify performance.

…Can you imagine how a team member feels when faced with professional certification?…keep in mind, his or her employment may be riding on this moment. Add in a little resentment at having to prove competency at a job already being performed, and you have a delicate situation. Once again, our mantra is a good guide:
• Relevant • Complete • Consistent • Fair

Acceptance will turn on your administration process. How can you make testing and certification less threatening? Will you provide coaching? How will you train test administrators and skill verifiers to be fair, consistent and supportive?

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You've seen how specific skill objectives can be, how comprehensive. When done well, this roster of skills pretty much *represenst* the sum of *the work the company does*. Our experience shows that without a well-planned certification process, ***certification*** *could become (the company s main preoccupation)*

Obviously, (the incredible cost of certifying every employee on every single skill) is hard to support, so you need to look at ways of reducing that cost. And there are several:
- Base certification on a weighted sampling of the skills rather than the entire skill set.
- Select questions or demonstrations that predict a high probability of competence in other skills.
- Provide for on-the-job certification by observing performance during regular rounds at work.
- Establish team certification by way of oral or on-the-job demonstration.
- Set up pyramid certification: when you certify, you can certify others.
- Incorporate certification into the training phase.

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…The point is, you've got to build milestones with incremental rewards into the program. You can't wait until the end to see what

happens. Certification milestones must be built into the entire course of the program. They set expectations for the team members: Each individual has to satisfy a certain portion of the requirements in a designated time period to collect the incentive. Individuals recognize that they must engage, now. They can quickly identify any problems they are having. And management can see how the program is working and make any changes before problems cause the process to implode.

Incremental certification also works to your advantage in planning and scheduling training, certification and testing. You need a smaller number of certifiers if you can spread the work over the full span of program implementation.

Support Five: Implementation and Communications

There's a lot going on with a skill-based pay program. There are many pieces, many players. All are interrelated. So it is important to have a detailed implementation plan…That seems logical enough, doesn't it? But it's surprising how companies put so much emphasis in planning the structure of a program, invest in skill development and then minimize the importance of the implementation process.

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We recommend mapping every element in detail. Begin with program milestones and include all the activities that lead up to them. Specify all participants and their roles in each activity. You can manage the process with customary project tracking techniques.

Mapping also assists with information management by identifying the information that must be collected and handed off at each phase. This can help design the information systems that will support the program.

Mapping serves still another purpose, and that is to design tools and communications to make the program succeed. With the map before us, we can look at each activity and each role. We can identify what encouragement, what information, and what tools will be needed to perform each role…(The map must) specify who, what, when and the threading of predecessor and successor tasks.

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…We then can extract specific communications needs and recommend the medium to satisfy the need. General awareness and orientation are ongoing communications needs…We must keep in mind the two keys to success in advertising: frequency and repetition. You need to say the same thing a number of times, a number of ways in as many different mediums as you can.

Support Six: Evergreen System

…I read an interesting statement recently made by a compensation expert. He said that "continuous evolution of the skill-based pay program represents organizational improvement rather than failure of the program." The workplace has changed and will continue to change over the span of program implementation. New tools, new technologies and new work techniques will change the skill set. And changes in the market place will affect the compensation structure.

Some things will work and others won't. Your program must have built in processes to address these changes. And we're not talking about **once-a-year reviews**… updates must be timely. A standing committee of process guardians and an integrated database allow you to continually manage the skills and certification process.

Future Opportunities: Multiple uses for skills information

Skill-based pay captures an enormous amount of information. Mining it for more value is the next logical step. We've already seen how training can benefit from SBP analysis. Let's look at some other data we've captured.

Task information: We now have perhaps the most comprehensive description of what people DO. We've tagged it by job and by some form of classification. We may also have ranked it in importance. How many companies have that kind of information at hand?

Most aggregate information that companies have about activities is collected by payroll and is classified by department and role. (A thorough task analysis) gives us a much better picture of where our human resources are allocated. By plugging time card data into the task information, we can see where manpower is actually spent. We can compare reality with our expectations; we measure our actual allocations against our priorities. We can make decisions about the importance of activities. And we then can reallocate staff accordingly. With skill-based pay, we have information to define job skill sets. This information can be very effective in directing hiring. The point we want to make is that skill-based pay can be a force that energizes many other parts of your enterprise. Skills definitions are valuable tools, not simply a single use commodity.

Your first choice

Developing a skill-based pay program requires **teamwork** at every level and through every phase of the process - a planning team, work teams to define the skills, a training redesign team and teams of certifiers. And these teams require a network of dependable supports.

…While the title in the program is a little ominous—"And the other choice is a slow, painful death"—I hope you see the great value in the **first** choice: a skill-based pay program that has been properly planned and solidly supported will reap benefits for everyone in your organization.