

## **Potential Problems of Human Resource Broad banding Salary Management Strategy**

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### ***Abstract***

*Broadbanding is a job grading configuration that comes between applying spot salaries and numerous job grades to establish what to pay typical positions and serving within those positions. Broadbanding is an approach to job classification and compensation that takes into consideration content and scope of a job; employee knowledge, skills and abilities; the job market; and employee performance. Broadbanding gives the organization some broad job classifications; but it does not have many distinct job grades unlike traditional salary structures. As a result, broadbanding trims down the prominence on 'statuses or hierarchy and places more stress on tangential job movement within the company. In a broadbanding structure an employee can be more easily rewarded for lateral faction or skills improvement, whereas in traditional multiple grade salary structures pay hike happens principally via job promotion. In this way, broadbanding is a more flexible pay system. This suppleness, on the other hand, can lead to internal pay relativity problems as there isn't as much control over salary progression as there would be within a traditional multi-level grading structure. This paper aims at identifying the probable problems of broadbanding that often restrict the organizations from its complete application in spite of its different positive applications*

**Key words:** Broadbanding, job classification, job gradation, salary structuring.

### **Introduction:**

Broadbanding is an approach to job classification and compensation that takes into consideration content and scope of a job; employee knowledge, skills and abilities; the job market; and employee performance. Broadbanding gives the organization using it some broad job classifications; but it does not have many distinct job grades unlike traditional salary structures. As a result, broadbanding trims down

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the prominence on 'statuses or hierarchy and places more stress on tangential job movement within the company. Broadbanding fits more suitable in some organizations than all. Hierarchical and risk averse companies with a preference for well defined policies and procedures would be better served by a traditional multi-grade structure. On the other hand flat organizations that are flexible, have a higher forbearance for indistinctness, and persuade lateral or cross functional movement would be good candidates for broadbanding.

In countries where promotions and designations are very significant socially, companies may need to consider letting employees use an outside business title based on employee age or years of service, which is dissimilar than the job title used for position grading internally. Some employees may feel lost, or not know how to build their careers without a vertical corporate ladder to climb. In this case, the company will need to be able to give examples to the employees of how lateral movement can enhance their career opportunities.

### **Choice of Broadbanding for the organizations**

For an appropriate organization in the precise cultural set, broadbanding can do the following:

- a. **Reward performance more efficiently** – as the pay ranges are wide, the company has the flexibility to reward a star performer, even when they aren't getting promoted.
- b. **Take the emphasis on off job evaluation** – because the number of levels have been abridged, job evaluation can be rationalized as there aren't as many distinct grades that need to be well thought-out when fitting a job into the structure.
- c. **Manage a flexible/mobile workforce** – for companies that have staffing needs that change habitually or are difficult to envisage, or work within a business environment that is in change, broadbanding offers a program that is easier to maintain than a traditional system with many distinct levels.

One apprehension noted by most of the organizations that have implemented broadbanding is that compensation costs may go up. This is due to the wider than normal band taking away that more gradated top end control on salary levels. This can be successfully managed through the use of market data, in order to help managers to authorize their pay decisions for a particular employee to the external market before proceeding to give higher than normal pay increases. Broadbanding, like other grading systems, relies on the buy-in of all key stakeholders including the business managers, HR managers, and employees. Tailored communication to

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each of these groups will go a long way towards ensuring the successful implementation of a broadbanding program.

Broadbanding groups' similar jobs together using a few, wide salary bands defined by the U.S. based organizations. Within the bands, positions with similar skill requirements are clubbed into job families. Job family titles are applied on all payroll records, budget documents, personnel files and other official records. Sometimes an organization has become too hierarchical for the strategic direction of the company; finding it has become too slow to react, taking too much time to get information from the top down and even less effective at getting messages from the lower rungs up to the ears of senior management. Broadbanding reduces the number of levels or layers within a company. This is the best face-saving way for an organization to disintegrate salary ranges and sustaining de-layering of the job grades. This application easily flattens an organizational structure and reduces the hierarchy. Some great person to job matches just do not come to pass because of the way a job has been classified or positioned with an assigned salary band. If that new position is not a lateral or at a higher step, most cogent people will not critically consider a transfer that results in a demotion. That is just not a positive step for their career development. With broadbanding, additional internal movement is facilitated, because the likelihood increases that one's current job and alternate position are within the same enormous range of pay. This makes pay to take a back seat and puts forward other attributes of a position, encouraging internal mobility and potentially with more developmental assignments. With broadbanding, top management has great autonomy to pay what they want to an employee. This enormously can reduce the push-pull between the hiring manager and the human resources organization. Now the issue of pay shifts to the control of the hiring manager and the challenge of "*Does one have enough money in the current budget?*" or not. The perception of HR as a adaptable gate keeper to preserve the salary structure diminishes. Here top management delegates greater autonomy.

#### **Methods Used to Design Salary Range Structures**

Salary structures are an important component of effective compensation programs and help to ensure that pay levels for groups of jobs are competitive externally and equitable internally. A well-designed salary structure allows management to reward performance and skills development while controlling overall base salary cost by providing a cap on the range paid for particular jobs or locations. The two most common methods companies use to design base salary structure ranges

Potential Problems of Human Resource Broad banding Salary Management Strategy are *market pricing* using external market data and *point factor* focusing on internal pay equity.

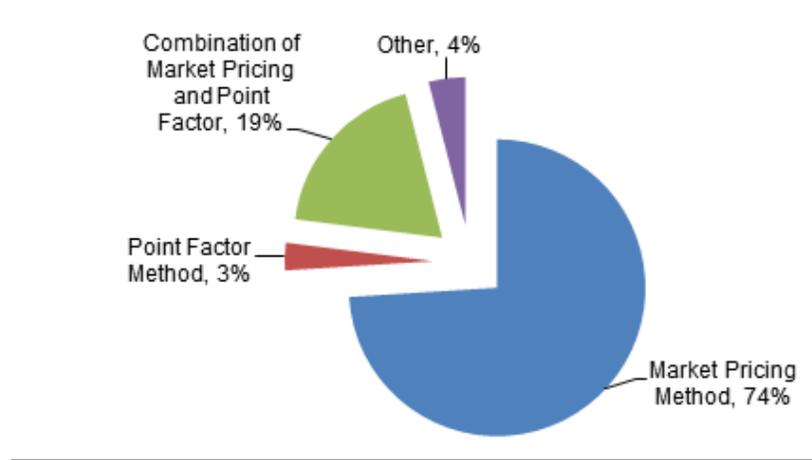


Figure 1: Methods used to design Salary Structure

Most companies use a market-pricing approach with current salary survey data for individual jobs, to design and adjust salary range structures (Figure 1). Only 3 % of companies rely solely on the point-factor method, which assigns a point value to specific jobs within a company. In addition, 19 % of companies blend market-based and point-factor approaches when designing their salary range structures. As companies increase in size, they typically have a higher number of salary structures to accommodate more locations and job structures. Many multinational companies with salary range structures have multiple structures varying by job and/or geographic location. There is a strong correlation between job level and number of salary structures. Single salary structures are more common for executives and multiple salary structures are more common for nonexecutive positions

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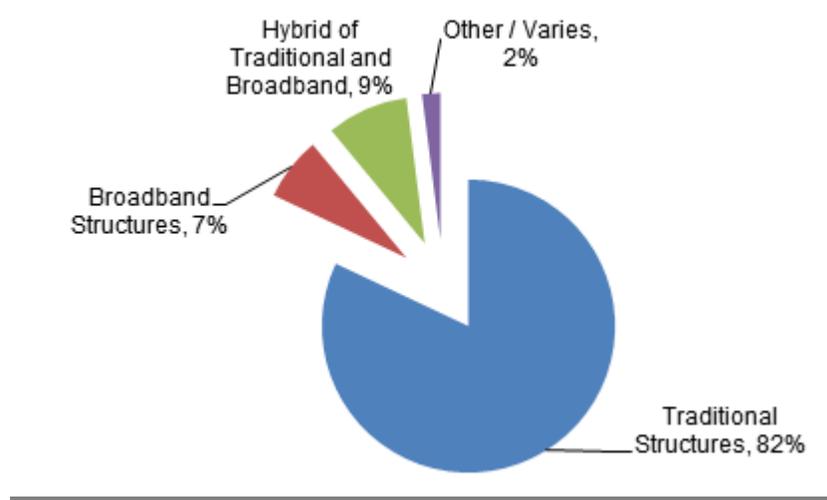


Figure: 2 : Traditional Vs Broadbanded Salary Structures

#### **Traditional vs. Broadband Salary Structures**

*Traditional salary structures* are organized with numerous layers and range structures (or pay grades) with a relatively small distance between each range. This provides a hierarchal system enabling employees to be promoted from one pay grade to another. When designed correctly, traditional structures enable the recognition of differing rates of pay for performance and guarantee a reasonable level of control over internal compression and salary expenditures.

*Broadband salary structures* are more flexible and consolidate pay grades into fewer structures with wider salary ranges. On an average, 82 % of surveyed companies use traditional salary structures, while only 7 % use broadband structures (Figure 2). 9% use a hybrid or mix of traditional and broadband structures.

Source: *Culpepper Salary Range Structure Practices Survey of 360 organizations, 2010*  
<http://www.shrm.org/hrdisciplines/compensation/articles/pages/salarystructures.aspx>

#### **Prime Drawbacks of HR Broadbanding**

##### **a. Lack of Awareness of External Market Rates**

Traditional salary structures, give current information to the management team about what market rates are. With broadbanding, if a manager wants to pay at the market midpoint, they are left perplexed and guessing, because there is no midpoint in a broadband.

**b. May Lead to Inequities**

Broadbanding and its flexibility and trust in management may or may not be warranted in many cases in a broadbanding system, it is relatively easy to have two people with the same responsibilities have earnings that are thousands and thousands of dollars apart. Broadbanding weakens the linkage between salary growth and skill development for the next higher-level, since it is so far off as not to be a motivator.

**c. Lack of Cost Controls**

It certainly may call into question why salary bands have at all if they are so wide. One needs to evaluate if his/her cost control training and measures are strong enough to hand over this much authority and autonomy to his/her organization. Moving to broadbanding may necessitate other incentives that had formerly been tied to salary grades, such as bonus, exgratia or Employee Stock Option Scheme (ESOS).

**d. Promotions**

Fewer salary bands lead to fewer opportunities to climb to the upper stairs of the career ladder; meaning fewer promotion opportunities to the employees. If the managers are committed for moving towards broadbanding then they must keep their eyes on turnover rates.

**Conclusion**

Corporate professionals have been the locus of salary management for more than a few decades. The sprouting definition of their responsibility is made likely by new human resource information systems that make pay-related data more accessible to the managers to take decisions and HR experts to scrutinize pay related decisions. The anticipation that the managers use the information in their compensation planning is often an indirect control on their decision making. Conceivably the major dissimilarity between the public and private sectors is the reality that private sector professionals grow up within an working environment where compensation is fundamentally used as a key tool to persuade performance and productivity. They are well aware that their compensation package and career development ladder both fully depend on their individual and team performance. Their pay component includes direct cash incentives and in some cases even stock ownership opportunities, that makes the annual income rise more or less remarkably apart from as a precursor of how they are perceived by their superiors. As a result they take performance management sincerely and know it that their benefit is to avoid some of the practices that influence all employees incredulous and apprehensive of pay-for-performance concept. Along with the changing role of managers is a decrease in the man power committed to monitoring the pay systems. Most of the

Potential Problems of Human Resource Broad banding Salary Management Strategy companies no longer are keen in increasing high administrative costs. The diminutions in staff have strained the human resources function to look reverse from in depth supervising. In addition, organizations believe in productivity based compensation rather than automatic increase practices of government services. The model for broad banded salary structures is sprouting as companies expand.

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