



## **Compensation Practices: Are Salary Broadbands Right for Your Organization?**

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July 5, 2016

## **History**

Broadbanding is an alternative compensation approach to traditionally designed salary ranges, introduced in the 1980's by General Electric. GE developed broadbands to support a flatter, less hierarchical organization structure that would: (a) provide greater flexibility for employee skill and career development; (b) provide greater flexibility with ongoing salary administration; (c) increase the agility and alacrity of people movement related to projects and task assignment without facing the customary barriers associated with job grading and salary ranges.

During the 1980's, broadbanding made its way into the general compensation marketplace, becoming attractive to large companies experiencing similar challenges as had GE. These were companies where managers had to undergo multiple steps for job and salary changes, inhibiting quick decision making at a time when international competition was increasing. Work changes were continually required to maintain competitiveness in a new economy that was becoming more globally based. The grade and pay systems were standing in the way of progress. Companies were looking for new ways to quickly accommodate business needs through job changes that eradicated the red tape.

Though the concept of broadbanding rose in popularity by the 1990's, few organizations actually adopted the practice. Broadbanding reached its height in the mid-1990's to approximately 17% of U.S. organizations that had implemented this new approach to addressing job and pay changes. By 2001, Mercer reported in their Policies and Practices Survey, fewer than 15% of all organizations surveyed reported the use of broadbands. According to Mercer, some organizations who had adopted broadbanding earlier had returned to the more traditional salary range approach. By 2009, only 11% of all U.S. organizations were using broadbands while another 9% utilized a hybrid or mix of traditional and broadband structures.

## **What is Broadbanding?**

Broadbanding is a compensation approach or practice that consolidates many salary ranges into fewer levels accommodating a wider range of salaries. The intent or purpose of broadbanding is to allow for pay, job skill, and job assignment flexibility within the same band, broadly grouping jobs by a specific job type, discipline or both.

Different than the average traditional salary range width of 35% to 60%, broadbands have range spreads of 75% to 125% or more. Also while salary ranges utilize midpoints or market rates, broadbands eliminate the traditional use of midpoints within a band but may incorporate control points within different sections of the band.

**Figure 1.1** Example: Salary Range & Broadband

TRADITIONAL SALARY RANGE	Minimum	Midpoint	Maximum	50% Spread
	\$40,000	\$50,000	\$60,000	
Salary range assignment is primarily based on job evaluation results				
BROAD BANDS	Band classifications are determined by job group or type.			
<i>The example shows broadbands with ranges of 101% and distances between the bands of approximately 30%.</i>	Example			
	Band 1:	Senior Executive	\$147,800-\$297,230	
	Band 2:	Executive	\$113,700-\$228,650	
	Band 3:	Senior Manager	\$87,490-\$175,950	
	Band 4:	Manager/Supervisor	\$67,300-\$135,300	
	Band 5:	Senior Professional / Technical	\$51,800-\$104,200	
	Band 6:	Professional/Technical	\$39,880-80,200	
	Band 7:	Senior Admin /Operations Support	\$30,680-\$61,700	
	Band 8:	Administrative / Operations Support	\$23,600-\$47,500	
	U.S. companies using broadbands customarily develop and administer 8-10 bands. A breakout of the bands may include: 2 for executive positions, 4 for managerial and professional positions, 4 for all other type positions such as paraprofessional, support, technicians, etc.			

Absent in broadbanding are established uniform rules addressing band design or administration, resulting in varied broadbanding practices among organizations. Numbers of bands, widths, and classifications vary from organization to organization. Some companies even design bands within bands, differentiating job families such as Sales, Finance, IT, Human Resources, etc. to better define career and salary progression within each job family. As a result, all band design and administration considerations are entirely dependent on the individual organizations to determine the optimal band design that will best work within their own culture and structure.

**SOME ADVANTAGES**

Flexibility of Job Changes and Assignments

The trials and tribulations of a sometimes lengthy job evaluation process essentially disappear. Managers today are continually facing new goals, objectives, and ever

changing projects, requiring an ongoing shuffling and reshuffling of teams and job assignments. Broadbands drive pay decisions downward to the manager level so they may make decisions around reassignments, job changes, and pay adjustments, immediately addressing situations without bureaucratic hindrances.

#### Focus Off Grades

With salary ranges, grade focus is reinforced. Job grade focus may produce counterproductive activities by negatively stirring the pot internally. With broadbands, grades are no longer at the forefront, tending to neutralize difficult situations that were once created by grade focus.

#### Employee Development

Employees may be deterred from considering job opportunities that have the potential for skill and/or career development when these opportunities do not provide an upward grade change. In salary range environments, advancement and ongoing career development are limited to job promotions. Lateral job moves are often not considered or encouraged in salary grade environments. Broadbands, on the other hand, disintegrate grade barriers, allowing employees to take advantage of a variety of job opportunities they would not otherwise be considered. Negative stigma and pay stagnation are taken off the table providing employees with a wider scope of development choices. Broadbands as a result may provide a richer environment for career development for ongoing and future career progression.

#### Pay Differentiation and Salary Maximums

Broadbands have the ability to allow for better pay differentiation based on performance, skill and knowledge among employees in the same band. Pay may also go further without fear of hitting the range maximum than with salary ranges. For employees to reach the maximum pay level in a salary range environment is not uncommon. Hitting “max” creates a negative situation for the employee which is better avoided when using broadbands.

### **SOME DISADVANTAGES**

#### Lack of Structure

While increased flexibility is the cornerstone of broadbands and desired by management, organizations that have implemented broadbands have often experienced confusion (and sometimes chaos) due to the lack of structure. Without midpoints guiding managers and HR in making compensation decisions, HR has found it necessary to conduct more frequent market analyses in order to appropriately gauge individual and job compensation. Some organizations have developed mini ranges (or zones) for jobs within bands to help guide compensation progression, defending the argument that salary ranges really do not go away in broadband environments and some of the same issues that occur with salary ranges continue to occur with broadbands.

#### Internal / External Inequity

Because Managers have more control of pay and market is no longer a consideration, equity gaps may occur between salaries of employees in same or similar jobs as well as to market. As a result, Human Resources needs to stay abreast of employee and market pay, providing managers with the necessary tools, data and training for them to make sound equitable pay decisions. While HR needs to perform the same tasks in any pay environment, broadbands provide more opportunity for abuse than salary ranges. HR must continually monitor pay disparities and address these situations with managers through coaching, counseling and training.

### Lack of Promotions

With salary broadbands, promotions occur when employees advance from one band to the next. Since bands are fewer in number and longer in width, employees as a whole experience fewer promotions, though they experience salary progressions within a band. Employees can become frustrated especially among those individuals who have a good probability of residing in the same band for many years. As a result, companies have had to redefine career advancement so employees do not become discouraged.

### Compensation Expertise and Communications

Broadbands require sophisticated levels of compensation expertise because of the limited structure, not only among HR professionals but also managers. Sections of bands need to be clearly defined from a competency as well as market salary perspective, so all who use the bands are educated and understand the terms around band progression. Also many managers believe they can freely administer pay however they choose in a band environment. Contrary to such belief, job descriptions and compensation guidelines become even more important with broadbands. Managers need to be able to work within established guidelines in order for a band environment to be successful.

## **CONCLUSION**

Though broadbands offer flexibility and decrease bureaucratic rules from the traditional salary range environments, not all organizations are well suited for broadband implementation. Based on almost 40 years, those best suited for broadbands appear to be:

- Flatter organizations with few levels; typical in manufacturing companies
- Top management has clear goals while understanding the pros and cons along with the commitment needed to successfully execute broadbands
- Managers are sophisticated and highly trained in HRM and compensation with the ability to make sound, equitable decisions using appropriate justification
- Management values flexibility and views structural / procedural rigidity as a hindrance, restrictive, and counterproductive
- Start-up organizations, where a simplified structure offers maximum flexibility with minimal administration, assisting in getting organizations up and running
- Organizations with the resources for staying abreast of market conditions and internal salary changes

While salary ranges remain the primary practice of the day, broadbanding may be an approach that could work well in your organization. Broadbanding may even be applied in just an area of your organization depending on the group of jobs along with the operational and structural aspects of that part of the company. As with all compensation approaches, you should carefully weigh the pros and cons of broadbanding to ensure optimal alignment with organizational goals while supporting and reinforcing the targeted culture you desire. Introducing broadbands will be introducing significant change making it important to weigh the strategic alignment and effectiveness of the current systems vs. the anticipated outcomes and strategic alignment with broadbanding.

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