JOURNAL OF
Compensation and Benefits

A WARREN GORHAM LAMONT PUBLICATION September-October 1993

HOW TO DESIGN A PAY-FOR-SKILLS-USED PROGRAM

by R. Bradley Hill

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HOW TO DESIGN A PAY-FOR-SKILLS-USED PROGRAM

For many categories of jobs, it may be time for companies to throw out the subjective factor-based evaluation programs of the past and start paying for skills and activities that will benefit the company.

by R. Bradley Hill

Skill-based pay programs compensate employees for a set of verifiable skills or activities of proven value to the company. Companies pay for the skills because they believe the skills will increase the employees' contributions to the company. Skill-based pay programs are of two varieties: (1) pay for skills acquired and (2) pay for skills used. Under a pay-for-skills-acquired program, pay does not depend on whether the skills are used. Under a pay-for-skills-used program, the company must require, and directly benefit from, the skills before it will pay for them.

Developing a Pay-for-Skills-Used Program

A pay-for-skills-used program is developed by using a closed-end questionnaire that prompts employees to identify the activities, skills, and knowledge required by their jobs, as well as the skills and knowledge that they personally possess. Information from this closed-end questionnaire will serve as the basis for job descriptions, skills inventories, exempt/nonexempt classification, job evaluation, career planning, and job design.

Great care must be taken in developing such a valuable tool. The thirteen-step process that follows describes how to construct the questionnaire, verify the results, and use the questionnaire to generate a broad range of programs necessary to support human resources management.

R. Bradley Hill is a senior consultant with Hay Management Consultants in Chicago. He specializes in the design of variable pay programs for manufacturing and service organizations.

Step 1: Identify the Employee Group Covered by the Program

Skill-based pay programs can be broadly applied but are most successful when focused on a specific employee population, such as clerical personnel, the accounting function, or hourly production employees. Because skills and knowledge become more qualitative and subjective at higher job levels (e.g., communication skills, leadership skills, and problem-solving skills), skill-based pay may not be as effective as dual-career paths at addressing technical/management pay issues.

After identifying the specific employee population to be covered by the program, form a project team. This project team should include representatives from human resources, a sample of employees covered by the program, and a sample of those managing the employees covered by the program. The size of the project team must balance representation with efficiency. The company should try to keep membership under ten.

Step 2: Develop an Open-End Questionnaire

The project team's first task is to develop a basic questionnaire that asks employees to describe the major activities they perform and any tools, skills, or knowledge required to perform those activities. The questionnaire should be kept simple and should be no longer than one sheet, front and back. A sample of a completed questionnaire is the only instruction employees will require. The open-end questionnaire results will have no direct bearing on a position's description or classification and will be used primarily to develop lists of tasks and skills to be incorporated into a closed-end questionnaire.

Step 3: Develop Activity/Skill Lists

Inventory all activities and skills that are identified in the open-end questionnaire and eliminate any redundancies. Simplify activities that are described with compound sentences or that refer to specific information not critical to the activity. For example, "inputs Form 1077B into the ACSA system" might be simplified to "enters data into a computer system." Specific computer knowledge of the ACSA system and procedural knowledge required to understand "Form 1077B" would be captured in separate skill lists. The separate lists created by segregating skills and activities will be easier to understand than one compound activity list that covers every combination and permutation of entering forms into systems.

Typical categories of knowledge and skills include software knowledge, policy and procedure knowledge, equipment skills, and trade skills.

Step 4: Review Task/Skill Lists With Employees

Meet with representatives of jobs that are not well described or understood and with representatives of jobs in areas that have historically offered the most job classification challenges. During these meetings, review the task and skill lists with employees to make certain that employees are able to accurately portray their activities, skills, and knowledge and are comfortable with the simplified definitions of their primary activities. Employees should be encouraged to expand the lists or improve activity statements or terminology.

Step 5: Transform Lists Into a Closed-End Questionnaire

The project team develops a closed-end questionnaire approximately eight to twelve pages long based on the final task and skill lists. The questionnaire will prompt employees to identify all activities required by their job and to rank order their top ten activities, based on the amount of time they spend engaged in each activity.

Employees complete the skill and knowledge sections by indicating the level of proficiency required to perform the job, as well as their personal level of proficiency (see Fig. 1). Allowing employees to differentiate personal skills from required job skills should help eliminate bias and will ultimately provide the company with a vehicle to develop both job descriptions and personal skills inventories.

Step 6: Determine Job Description Content/Format

Job descriptions assist companies in many ways: new hire communications, performance appraisal support, Fair Labor Standards Act (FLSA) status determination, internal job posting, advertising jobs, market pricing, and Americans With Disabilities Act (ADA) compliance. Because the closed-end questionnaire will provide the foundation for new job descriptions, the company should review the objectives of its job descriptions and structure the questionnaire to address its objectives.

Companies may choose to use the job description as a communication tool not just for the current position holder, but for the entire employee population. Because job descriptions will be constructed using familiar terminology and simple sentences, they can provide employees with a better understanding of what other jobs entail. Grouping job descriptions by function and using a flow chart to explain how jobs fit into a process (rather than an organization chart to describe how jobs fit into the organizational hierarchy) can provide all employees with a better appreciation for their associates' contributions.

Step 7: Finalize and Distribute the Closed-End Questionnaire

The project team meets with a cross-section of employees and managers to ensure the following:

- The questionnaire captures all important job elements;
- The terminology used in the questionnaire is accurate and meaningful; and
- The resulting job description will be a useful document.

Once the closed-end questionnaire content is final, the project team should prepare training materials to explain how to properly complete the questionnaire. Training materials should include a sample of a completed questionnaire and an

FIG. 1. Sample Questionnaire Excerpt

Software Applications									
Percentage of time spent per application per year Please indicate the % of time over the course of the year that you work with each major software application.		**Scale I Position skill requirements** Check the boxes below to indicate the level of knowledge required by your position for each application.			**Scale II Employee knowledge** Circle the number below that indicates your level of knowledge in those applications that apply.				
Application	% Time	Basic	Full Working	Expert	Basic		Full Working		Expert
1. Word Processing	(____%)								
a. Multimate		☐	☐	☐	1	2	3	4	5
b. Office Writer		☐	☐	☐	1	2	3	4	5
c. Word (Microsoft)		☐	☐	☐	1	2	3	4	5
d. Wordperfect		☐	☐	☐	1	2	3	4	5
2. Spreadsheet	(____%)								
a. Excel		☐	☐	☐	1	2	3	4	5
b. Lotus 1-2-3		☐	☐	☐	1	2	3	4	5
c. Lotus Symphony		☐	☐	☐	1	2	3	4	5
d. Supercalc		☐	☐	☐	1	2	3	4	5
3. Presentation	(____%)								
a. Chart/Diagram Master		☐	☐	☐	1	2	3	4	5
b. Graphics Gallery		☐	☐	☐	1	2	3	4	5
c. Harvard Graphics		☐	☐	☐	1	2	3	4	5
d. MacDraw		☐	☐	☐	1	2	3	4	5
e. Power Point		☐	☐	☐	1	2	3	4	5
4. Database	(____%)								
a. Alpha 4		☐	☐	☐	1	2	3	4	5
b. Dbase III or IV		☐	☐	☐	1	2	3	4	5
c. Powerbase		☐	☐	☐	1	2	3	4	5
5. Programming	(____%)								
a. Basic		☐	☐	☐	1	2	3	4	5
b. C		☐	☐	☐	1	2	3	4	5
c. Fortran		☐	☐	☐	1	2	3	4	5
6. Other	(____%)								
a. Vax Doc		☐	☐	☐	1	2	3	4	5
b. Interleaf		☐	☐	☐	1	2	3	4	5
c. Aldus Pagemaker		☐	☐	☐	1	2	3	4	5
d. Other ________		☐	☐	☐	1	2	3	4	5

explanation of any qualitative terms used (e.g., basic, full working, and expert knowledge in the Figure 1 rating scales). Ideally, questionnaires should be distributed in group meetings, with a proctor available to answer questions.

The process described to develop the closed-end questionnaire insists on employee involvement at several junctures. In fact, all the items on the closed-end questionnaire have been developed by employees through their open-end responses. Employees generally appreciate the format of the closed-end questionnaire because it eliminates vocabulary and writing skills from consideration in defining and valuing jobs. In effect, it offers all employees a common dictionary of activities and skills to describe their jobs.

The company should be committed to modifying the questionnaire over time as new technologies and processes are introduced. As such, the company should keep the questionnaire on diskette and update the activities and skills as changes occur.

Step 8: Review Questionable Responses

After all questionnaires have been completed, the project team must begin "scrubbing" the data. This effort involves identifying data that are

FIG. 2. Sample Critical Skills Inventory for John Doe

Equipment Skills

Axis (2+3) N.C. machine
De Vlieg
Jig bore (P)
Lathes
Molding machine

Software Skills

Spreadsheet—Level 2
Database—(Level 2)
ANILAM—Level 4
Cribsite/Plantsite—Level 3
QIC System—Level 3
TSO—Level 1

Policy/Procedure Knowledge

Mil-Std-202—Level 3
Mil-Std-2000—Level 3
OD 4900—Level 1
OD 56334—(Level 2)
Unit Instructions—Level 4

Legend:
Level 1 = Basic
Level 3 = Full working
Level 5 = Expert
Parentheses = Not a current job requirement

incomplete, incorrect, or inconsistent. All incomplete and incorrect data (usually the result of employees not following instructions) require follow-up. There are several categories of inconsistency, all of which also require following up with the incumbent and determining appropriate responses:

- *Activity/skill inconsistency.* There are two primary sections in the questionnaire, one that describes activity and one that describes skills. These two sections should be compared for consistency. For example, an incumbent communicates that the job requires very high level skills, but these skill levels are contradicted by activity that is dominated by basic clerical tasks.

- *Employee/manager inconsistency.* All questionnaires require supervisory review and approval. Sometimes, supervisor and employee do not agree on the proper response set and have noted this on the questionnaire.

- *Open-end/closed-end inconsistency.* All employees are required to complete two questionnaires: (1) an open-end questionnaire to assist in developing the task and skill lists and (2) a closed-end questionnaire to assist in classifying the position. Sometimes there are discrepancies in the level of activities or skills communicated in the two questionnaires.

The final reasonableness check is peer review. Because the questionnaires will become the basis of job descriptions that will be shared with everyone, a job that is misrepresented will be quickly identified by peers. This peer pressure, or the threat of peer pressure, may help keep the questionnaire input honest.

After the project team reviews all responses, it establishes an authorized profile for each position. (A position is a collection of tasks assigned to a *specific* employee.)

Step 9: Develop Personal Skills Inventories

All the personal skills information collected in the closed-end questionnaire is depicted in a skills inventory for each employee (see Fig. 2). The skills inventory identifies all the business-related skills the employee possesses, whether or not they are required in the employee's current job.

The company will use the inventory in its succession planning and employee development efforts; therefore, it should update the inventory annually.

Step 10: Cluster Positions Into Jobs

By comparing the authorized position profiles, the project team can identify the positions whose activity and skill requirements are the same or similar. Positions with the same content should be clustered into the same job and have the same job title, even if the old job titles were different. Conversely, positions performing very different activities should have different job titles, even if the old job titles were the same.

The objective of this activity is to determine how many discrete jobs exist in the organization. Companies wishing to reduce the number of job titles may approach this process liberally, but they should be careful not to collapse positions to such a degree that one incumbent is not capable of performing the activity of another in the same job title.

FIG. 3. Sample Job Description—Administrative Secretary

The following activities are performed in the regular routine of accomplishing the position's objectives:

Picks up, sorts, and distributes mail.
Maintains filing systems, or catalogues data or information.
Copies, collates, and binds reports and materials.
Tracks information by computer or on paper.
Follows up on information to verify or confirm.
Enters data into a computer system.
Sorts and/or places data into categories.
Prepares data requiring addition, subtraction, multiplication, etc.
Screens and handles telephone calls.
Writes memos, letters, or reports.

The job may also be required to perform one or more of the following activities:

Follows up with vendors to check order status.
Prepares expense reports.
Distributes forms, reports, or information.
Greets and escorts visitors.
Makes travel arrangements.

In order to perform the activities above, an understanding of the following equipment, software, policies, procedures, and instructions is required:

Office Equipment
Multiline telephone
Ten-key adding machine
Mylar punch/reader

Software
Spreadsheets—Full working knowledge
Word processing—Expert knowledge
Presentation—Full working knowledge
CPS—Full working knowledge

Policies, Procedures, and Instructions
LOW guidelines—Full working knowledge

A company will be able to have fewer job distinctions only when employees have taken on the skills necessary to perform in a broader capacity, in effect absorbing the activities of other jobs. However, the activity-based evaluation process can provide the company with a road map from (1) where a job's level of activities and skills are today to (2) where the company would like its level of activities and skills to be in the future. In addition, the process will identify what training is necessary to move from 1 to 2.

Step 11: Construct Job Descriptions

After the project team identifies job categories, it can begin developing job descriptions (see Fig. 3). The job descriptions describe each job's primary and essential activities, as well as the skills and knowledge that the job requires.

For single-incumbent jobs, activities and skills are taken directly from the closed-end questionnaire and placed in job description format. For multi-incumbent positions, all position profiles must be examined and a job description developed after considering input from the group of responses.

Final job descriptions should be distributed to all employees and will identify the knowledge and skill requirements of each job in the same terms as the critical skills inventories. This comparability makes it easy for employees to identify similar jobs that they may be qualified to perform, as well as the skills or knowledge they need to attain in order to be qualified for a higher level position.

Step 12: Define Job Value Criteria and Weighting

The project team reviews each activity and skill on the questionnaire and rates it to reflect training requirements, typical time to develop proficiency, and the amount of discretion used in performing the activity or applying the skill. The activity rating will be modified by the importance of the activity to accomplishing the job's objective. Skill and knowledge ratings will be modified by the level of proficiency *required by the job.*

Using the weighted combination of ratings from each section of the questionnaire (the activity section and the skills section), the project team develops an overall point rating for each position. This point rating depicts a position's value to the organization relative to all other jobs.

Step 13: Develop a Point-to-Grade Translation

With the job hierarchy developed, the last step is to partition the hierarchy into grades. The proper number of grades will depend on the number of reporting levels within the group, the range of job values within the group, and the organization's promotion versus progression philosophy. Some organizations prefer many grades with small midpoint differentials, so that they can promote individuals frequently as a recognition/reward. Other organizations have fewer grades with wide salary ranges, so that they can offer employees large progression opportunities within the same grade.

The point range for each grade will depend on the number of grades. Point ranges will not overlap, as each job's point value will directly determine its grade assignment.

Benefits of a Pay-for-Skills-Used Program

Under this thirteen-step process, all jobs are assigned to a pay grade based on the value of their required activities, skills, and knowledge. All required activities, skills, and knowledge are documented in a job description, and all job descriptions are distributed to each employee. In addition to the job description, all employees receive a critical skills inventory that details their individual skills and knowledge in a manner identical to the way skills and knowledge are depicted in the job description. In this way, employees can identify the jobs that they are currently qualified to perform (good skills and knowledge fit) and the additional skills and knowledge required to be qualified to perform higher level jobs.

In addition to paying for skills used, the company is communicating the required skills for each job. This opens up the pay system and informs all employees about what they need to know and to be able to do in order to be eligible for a promotion or a lateral transfer.

The information contained in the open-end questionnaire will provide the foundation for several crucial human resources initiatives. Following are some of the most important benefits:

The skills inventory will support efforts to match employee qualifications to job openings.

- *Generates critical skills inventory.* In addition to identifying the skills required for the job, the questionnaire will capture information on the skills possessed by the individual. The skills inventory will support efforts to match employee qualifications to job openings.
- *Identifies career progression.* The questionnaire will identify the activities performed and the skills required for all jobs, thereby communicating in specific terms skills in which employees must become proficient before being considered for advancement.
- *Expedites development of job descriptions.* Job documentation will be quickly developed by fully using response data from the questionnaire. Descriptions will be standard in format and allow incumbents to identify similar or related jobs that they may be qualified to perform. Identifying all essential activity assists in complying with the ADA.

- *Simplifies exempt/nonexempt classification.* All activities in the questionnaire will be rated for complexity and those of a nonexempt nature will be identified. Jobs with a predominance of nonexempt activity will likely be covered by the FLSA.
- *Supports objective job classification.* The new program will deliver a consistent classification process that is job based and legally defensible. Incumbent or management writing skills will not play a role in the classification process.

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- *Simplifies future job reclassification.* Future job changes will be documented in a questionnaire and the position reclassified on the basis of the value of the new or revised activities and skills. The classification process will be relatively quick and require minimal research and discussion, except for ensuring that the questionnaire has been accurately completed.
- *Provides a current job hierarchy.* The new job hierarchy will reflect the expected contribution of jobs, based on the activities and skills that are currently required. No consideration will be given to the way a job was structured or performed in the past.
- *Supports job restructuring.* The systematic evaluation of activity will provide valuable input for organizations considering restructuring job content and work assignments. The exhaustive database of activities and skills presented in the questionnaire may assist organizations in clustering activities into job groups or cross-training employees with similar skill sets.

Leveraging Information

The open-end questionnaire yields a multifaceted database that supports the development of many human resources programs. The upfront investment of time and effort in developing the questionnaire will pay rich dividends in the company's ability to effectively communicate job content, job requirements, and job value. For many employee groups, it may be time for the company to throw out the subjective factor-based evaluation programs of the past and start paying for skills and activities that will benefit the company. ■