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Competency Based Pay: A Modular, Flexible and Scalable Business Solution

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As companies have down-sized, right-sized and re-engineered work processes to survive and compete in today's global economy, organizations are changing the way work gets done and how employees are paid. Companies are converting traditional, job-based pay systems to cross-trained, modular, work and pay approaches that drive versatility and flexibility. These scalable systems can improve productivity, minimize wait time, decrease overtime, maximize quality and offer job progression in otherwise repetitive work. In addition, competency based work and pay approaches can help assure that organizations have the right skills at the right time to support service delivery (Fuehrer 2008). This article differentiates behavioral and technical competency design, establishes the business case for competency based pay (CBP), offers real-life insights into competency pay systems, and shares 10 steps to building a CBP approach.

DEFINING THE MANY FACES OF COMPETENCIES

Recently, much has been written about competencies to drive talent management (Crisman 2008). Competency based talent management has come into its own and is thought by many to be a pragmatic method of establishing a common performance language and set of behavioral expectations (competencies) that help integrate talent processes (Assess Systems 2010).

Competencies used in this regard typically represent behaviors that "individuals are doing to contribute to the organization – not what they produce" (WorldatWork 2011). These behavioral or socio competencies may include categories such as team work, building relationships and valuing diversity (Fuehrer 1994). Socio competencies typically include "behavioral descriptors or anchors that help determine the proficiency standard that outlines the expertise needed in a given job" (Crisman 2008). Behavioral competencies are customized for a given organization, sometimes statistically validated for specific jobs, and used for varying purposes such as performance management and succession planning. (See Figure 1).

FIGURE 1 Example of a Behavioral Competency

Demonstrates Team Work

- Willingly shares knowledge, time and talent.
- Respects and affirms the dignity of others.
- Anticipates when other employees need help; offers help to share the workload.
- Patiently listens to other's ideas; asks for clarification to assure mutual understanding.
- Promotes a positive and friendly team environment.
- Resolves individual differences and conflicts in a positive and friendly way.

Although behavioral competencies have fully made their debut as the foundation of talent management systems, their counterparts, technical competencies, have not yet been fully harnessed to create alternative work and reward systems based on results. Technical competencies are job specific, reflect the essential job functions of a role, represent "technical expertise and are close to the organizations core competencies" (Zingheim & Schuster 2009). Depending on their application, technical competencies may or may not include performance criteria in the form of performance metrics or certification criteria. (See Figure 2).

FIGURE 2 Example of a Technical Competency

Competency: Inspects Truck, Trailer and Tarp Before and After Trips

- Inspects truck and trailer for defects at the beginning of shift.
- Accurately documents defects using the post-trip and pre-trip form within 15 minutes of trip start.
- Submits the pre-trip and post-trip form to office within one hour of end of trip.
- Notifies Maintenance and Dispatch within 15 minutes of an identified defect.

COMPLETING THE TALENT MANAGEMENT LANDSCAPE

Behavioral and technical competencies encompass the two primary types of results that make up work outcomes. These results can then be configured in multiple ways to support the talent-management components of selection, job progression, employee development, performance management, succession planning and pay. Other components that comprise the building blocks of an integrated talent-management system

include knowledge, skills and abilities and other qualifications that define job specifications – baseline employment criteria. However, the concepts of "competency" and "skill" may be particularly confusing (Zaim 2007). For purposes of this article, the author proposes that *competencies are categories of results that are required from employees in the workplace* ***and*** *include technical competencies and behavioral competencies*. Knowledge, skills and abilities (KSAs), on the other hand, are common job specifications. According to the WorldatWork *Glossary of Terms*, knowledge refers to acquired mental information necessary to do the job; skills refer to acquired manual measureable behaviors; and abilities, to natural talents or acquired dexterity. KSAs, along with other qualifications, such as education, experience, certifications, ability to travel, etc., all serve as the baseline employment criteria for a job. (See Figure 3). In summary, the talent-management components of behavioral and technical competencies, KSAs and other qualifications make up the fabric that weaves the talent-management system together.

FIGURE 3 Example of Baseline Employment Criteria (Job Specifications)

COMPETENCY: INSPECTS TRUCK, TRAILER AND TARP BEFORE AND AFTER TRIPS

Required KSAs (Cognitive Skills)	Required KSAs (Physical Skills)	Required (Other Qualifications)
▌Communication skills: Ability to listen and communicate technical information ▌English language skills ▌Trouble shooting skills: Ability to diagnose problems, consider alternatives and deliver solutions ▌Writing/Basic: Ability to write basic coherent sentences with appropriate grammar and punctuation ▌Writing/Reports: Ability to write/complete pre-trip and post-trip form, using applicable/technical terms.	▌Climbing ▌Crawling ▌Crouching/stooping ▌Reaching ▌Twisting ▌Standing ▌Walking (See definitions in Competency Manual).	▌CDL ▌Local and regional endorsements ▌Current on all required company training ▌Ability to travel up to 3 days at one time.

DEFINING COMPETENCY BASED PAY

The term "competency based pay" has been used in literature and by organizations with a wide range of meanings. To define CBP for this article, and to distinguish CBP from skill-based pay (SBP) and operationalize it as a business solution, the author defines CBP below.

SBP paved the way for organizations to think differently about how to design and pay for work. SBP focuses on building a pay system around the acquisition and demonstration of skills. Although still used by some organizations today, a possible flaw in SBP is the potential of incenting and rewarding employees to continually learn new skills even though the organization may not have a business need for

given skills. This characteristic may result in a pile up at the top of the skill hierarchy of too many highly paid employees without ample opportunities for employees to demonstrate the skills and commensurate results for the organization in the form of productivity, revenue and margin increases.

CBP, on the other hand, focuses on building a work and pay system around individual technical competencies (essential job functions) that comprise the work. Unbundling technical competencies from jobs, identifying each competency in its most basic form and measuring the complexity of each competency are all key components of building a CBP. Based on business need, employees learn and produce results in various combinations of competencies and accumulate points that place them in a pay range. A CBP system may or may not include performance metrics and/or certification criteria. The CBP creates both vertical progression opportunities (via points that potentially translate into higher pay) as well as horizontal progression (via potential pay for performance). The objectives of a CBP system include, but may not be limited to: configuring technical competencies into work systems that support business needs; providing employees with development and progression opportunities; cost-effectively rewarding employees commensurate with results; and perpetuating a workforce that is versatile and flexible and can deliver the right results at the right time. A CBP system can help attract and retain a high-performing workforce.

ESTABLISHING THE BUSINESS CASE FOR COMPETENCY BASED PAY

As one of the most rapidly growing pay innovations in the last two decades, the popularity of CBP is due to a number of forces (Zaim 2007). The strong emphasis on streamlining and re-engineering business processes to support business objectives provides much of the rationale for CBP. In addition, the transition from traditional to cellular manufacturing has given impetus to CBP. In most cellular manufacturing environments, a work team is rallied around a product or process with self-managed cross-trained team members driving results. To assure that the reward system is aligned with the cross-trained work system, employees must be encouraged and rewarded for the right things. Continuing to reward employees for performing a singular job while the work system requires learning multiple jobs is like forcing a square peg in a round hole.

And yet another compelling business case for implementing CBP relates to the unparalleled upward trend of workplace absences resulting in direct and indirect costs (of all major absence categories) averaging an astounding 35 percent of payroll for 2010 (Mercer and Kronos 2010). Workplace absences, combined with the unprecedented downsizing, layoffs and the doubling up of employees in jobs has resulted in the need for organizations to simply do more with less. Cross training employees to broaden and deepen their skills and competencies has become a workplace necessity.

Another force behind CBP is the need for organizations to improve service delivery. Many organizations tolerate conspicuous work system constraints that impede throughput and productivity as well as increase overtime and down time. These inefficiencies result in interrupted service delivery and negative customer satisfaction. In 2009 when overtime was mounting while service delivery was waning, Metro Companies in New Port, Minnesota, piloted a competency based work and pay system in its truck maintenance department. Prior to converting its work system to a cross-trained CBP approach, Metro experienced reoccurring productivity issues with unnecessary overtime. While lower-skilled maintenance technicians stood around with little to do, a few highly skilled employees performed the most complex truck maintenance work and racked up hours of excessive overtime each week. In essence, a couple of employees were the constraint. Since the implementation of a CBP system, Jennifer Hohneke, Metro's HR director, said that employees are encouraged to learn and become certified in additional technical competencies resulting in a versatile and flexible workforce with improved customer satisfaction.

Finally, as some think the U. S. economy is slowly transitioning out of the economic downturn, retaining high performing talent may become more challenging during the next few years. As companies have reduced their budgets for training and development, managers are looking for ways to introduce job growth to otherwise mundane and repetitive work. "Learning and growing isn't just about buying training – it's about helping employees to continue to grow in their jobs, and there are many ways to do that outside the training budget" (Robison 2010). When there is a business need for re-engineering work systems to include cross-training opportunities for employees to broaden and deepen their skills and competencies, CBP is a valid business solution that can propel employee productivity and retention to new levels.

DESIGNING A COMPETENCY PAY SYSTEM — THE BUILDING BLOCKS

Gaining Leadership Backing

While designing work and pay around the concept of competencies was a new concept to West and Laurie Houle, owners of Metro Companies, once explained, they readily embraced the idea. After analyzing payroll and overtime records, and exploring employee interest in cross training, CEO Laurie Houle embraced the CBP concept. Once a competency model was developed, she directed her HR and consulting team to begin the design process, and she supported the initiative from start to finish. With periodic resistance from a few employees wanting to hold tight to their "Lone-Ranger" work habits, Houle's backing of the project prevailed through implementation.

Not only is a solid business case needed for moving to a competency based work and pay system, but leadership's endorsement and support is also essential to begin the culture change required by CBP. In a recent study relating to "replacing

jobs with people's competencies and skills as the foundation for HR practices" conducted in 20 large publicly traded private, nonprofit and government organizations, authors Zingheim and Schuster document the importance of leadership support for the change process. The authors found that "leadership made it a priority and consistently championed and sponsored the change process; sponsorship came from the CEO and other senior leadership team members" (Zingheim and Schuster 2009).

Paving the Way for Employee Buy-in

The degree to which an organizational change initiative is understood and accepted by employees is directly related to their level of involvement in the transformation process. This is equally as important in implementing and maintaining the CBP approach. Contrast the degree of employee acceptance of a CBP program implemented in a large financial call center and one implemented at Metro Companies. With consultants spearheading the project at the call center and developing the competencies with little employee input, after several years, the CBP program in the call center is minimally maintained and not well understood. Compare this situation to the employee involvement used at Metro Companies. During project planning and launch in 2009, several employees were invited to participate in the design process which garnered some pre-implementation buy-in from the workforce. As the system was implemented, care was taken to communicate system characteristics to groups of employees with ample opportunities for questions. Shortly thereafter, one-on-one employee meetings were held to share details about how competencies were defined for each individual and how the system translated into pay and pay changes.

As Metro's CBP program unfolded during the next year, word spread to other employee groups about the system. One year later, that system was expanded to include all line functions and locations of the organization and added in driver and heavy equipment operator positions to the maintenance technician workforce talent pool. Because of employee participation, a pilot approach and effective communications, employee buy-in was positive.

Determining Jobs/Competencies to Include and Exclude in the CBP

Selecting the jobs to include in the CBP system is one of the first steps to developing the program. Several variables are considered in making this decision and ultimately answer important questions such as: which jobs and/or work processes would benefit from a cross-trained work team? Which jobs are constraints to productivity, throughput, quality and on-time delivery? Which jobs are currently dead-end, low paid, low morale and/or high training cost? For which jobs do we have unreasonably high overtime?

For Metro Companies, the decision of which jobs to include in its competency base work and reward system was driven by the realities and seasonality of

the business. The decision to (ultimately) include all three of their main job categories — drivers, maintenance technicians and equipment operators — into the CBP system was precipitated by several over-arching objectives. To provide work to loyal employees during seasonal downtimes, the company wanted to encourage cross training into other work that required compatible skills. In addition, Metro sought to provide job progression opportunities for high-performing and multi-skilled employees. Other business objectives included reducing overtime, eliminating productivity bottlenecks, creating ample backup bench strength to accommodate high-volume work demand, and removing every possible constraint to growing the business. Metro viewed the CBP approach as not only a business solution, but also as a scalable tool to enhance their capability to attract and retain high-performing talent through acquisition and organically driven growth. In addition, the company demonstrated the foresight that versatile and high-performing employees should simply be paid more than employees who had limited skill sets. The company undertook the CBP initiative as a combination business solution with the intent to pay for performance in the future.

An optional feature in the design of a CBP system is to include competencies that are considered baseline and/or a mandatory feature of an orientation process and supportive of culture. For Medical Arts Press, a Minneapolis-based printing company (later acquired by Staples), it was a unique opportunity to build the "basement" of its CBP program by including technical competencies relating to Safety, Lean and Team Process. These technical competencies required focused training and were required learning during the first few weeks of orientation, but were not included in CBP point/pay system. The inclusion of these "basement competencies" into the CBP system assured that all employees developed common capabilities that supported business expectations and desired culture.

Unbundling and Rebundling Work

Once decisions are made around the job groups to include in the CBP system, the next step is to unbundle technical competencies from each other and then, if necessary, to rebundle some based on the realities of how they are performed. Because the work system, and ultimately the pay system, will be based on the point value (and thus the monetary value) of individual and combinations of technical competencies, it is essential that technical competencies are stripped of excess activities and are defined in their purest sense. A way to look at this design feature is to consider the business need. If the business need is to always perform two related technical competencies in combination with each other, then the two related competencies should be written and defined as one. Conversely, if there is a possible business need for two currently combined competencies to be performed separately, then they should be unbundled into two separate units. (Please go to www.worldatwork.org/worldatworkjournal for an example of unbundling one technical competency into two competencies.)

A favorable byproduct of the competency bundling and unbundling process during CBP development is the "opportunity to clean up jobs" (Crisman 2008). In three organizations for which a CBP system was designed, including Metro Companies, Medical Arts Press and the *Minneapolis Star Tribune*, during the process of developing a CBP system, care was taken to study the work and to eliminate unnecessary job tasks, steps and activities.

Documenting Competencies Using a Customized Model

Another important stage of developing a CBP system is establishing a model for documenting technical competencies. The desired end results of this design stage include:

- Establishing the uses for technical competencies such as legally compliant baseline employment criteria, performance management, certification, etc. The ultimate uses of the competencies should drive the model used for documenting competencies.
- Assuring consistency in how technical competency statements are written.

It is impossible within this article to describe all models for writing competency statements. Figure 4 shows a model that was used to design the CBP system for a residential and commercial building company. This particular model embodies many elements of the entire talent-management process. It includes a description of the technical competency in terms of certification criteria reflecting adequate achievement of the competency during training and initial certification. The certification criteria in this example also doubles as performance criteria used to evaluate ongoing performance. The example incorporates methods of certification such as work samples, supervisory training and team assessment. The model also documents "required cognitive and physical skills" as well as "other qualification" criteria that are used as baseline employment criteria during the selection process.

Other technical competency models may be simplified from the example. Figure 5 demonstrates a model used to develop the competencies for an inside sales and service call center for a large news organization. This model integrates the technical competency, the certification criteria and ongoing performance evaluation into an all-in-one approach.

Relative to the design step of customizing a competency model, it is important that the uses of technical competencies are established upfront so that the best model can be selected to document competencies. Once the competency model is in place, it is essential that all identified competencies are written in the same format using the same model. This practice ensures continuity, validity and integrity of the future system.

Valuing Competencies

Valuing technical competencies is the first step of building a pay system around technical competencies. Within this article, it is not realistic to describe the array

FIGURE 4 Technical Competency Model for Residential & Commercial Building Company

Technical Competency: Sheet Rocking

Technical Competency	Required Cognitive and Physical Skills	Other Required Qualifications
Sheet Rocking	1. Basic Math 2. Use and care of common hand tools such as tape measures, level, hammer, miter saw, circular saw and cordless drill 3. Use and care of specialty hand tools such as planer, router, jointer. 4. Ability to climb, crawl, stoop, reach, twist, turn and bend.	Driver's License Ability to drive among job sites

Certification Documentation By: _____ Date: _____

Approved By: _____ Date: _____

Comments:

of methods for valuing competencies. In the author's opinion, the valuation method that creates the most scalable and flexible foundation for adding, subtracting and modifying competencies is a simple competency point evaluation method. This valuation approach uses straightforward evaluation criteria as displayed in Figure 6. Key considerations in developing the evaluation criteria include:

- The number of evaluation levels needed
- The nature of the technical competencies (e.g., call center, museum, manufacturing, continuous process, etc.)
- The degree to which more technical competencies will be added to the system over time because of expansion and/or acquisition
- Ease of application and understanding of the criteria.

Related to establishing a method for valuing the competencies is the number of evaluation levels needed within the system. Broadly, the more technical competencies that are included in the CBP system, along with the variation in complexity of competencies, the greater the number of evaluation levels required. There are six evaluation levels in the example in Figure 6.

Another variable in valuing competencies is the label and definition used to describe each evaluation level. *Degree of complexity* is the label that is used in the example plan displayed here. Other label/definitions may be level of accountability, scope and level of difficulty. The evaluation criteria labels and definitions

Certification Criteria and Performance Measurement Criteria Embedded into the Technical Competency	Certification Method	Degree to which Performance Meets Standards		
		Meets Some Standards	Meets Standards	Exceeds Standards
1. Applies framing lumber resulting in plumb and smooth surface. 2. Insulates between layers of wood resulting in continual layers. 3. Applies sheet rock neatly and straight resulting in straight lines, less than 1/8" joints and screws and nails flush with wall 4. Tapes joints resulting in smooth, even and continuous joints. 5. Sands over the tape, using sufficient pressure resulting in flat unbroken surfaces 6. Applies mud evenly over the joints using adequate pressure resulting in smooth surface requiring minimal sanding.	1. Work samples 2. Supervisor rating 3. Peer evaluation 4. Team assessment			

FIGURE 5 Technical Competency Model for an Inside Sales and Service Call Center

Technical Competency: Marketing and Retention Strategies

Technical Competency	Certification Criteria and Performance Measurement Criteria Embedded into the Technical Competency
Marketing Acquisition and Retention Strategies 1. Advise customers of other product and service enhancements available such as gift subscriptions and vacation packs to actively market products. 2. Upsell accounts to customers by suggesting options and providing information such as available offers and benefits of products and services. 3. Use retention techniques such as It's Your Win, It's Your Success. 4. Demonstrate email, digital or Internet marketing promotions.	1. Home delivery customers agree to purchase additional home delivery services in 39 percent of the available potential opportunities to upsell. 2. Customers wishing to discontinue partial or full home delivery services are retained at their existing level in 29.5 percent of cases. 3. Transactions into the platform system are made within the weekly assigned shift. 4. 28.5 percent of discontinued customers are retained at .5 service level via follow-up email marketing communications. 5. Final bills are generated the date the account becomes inactive. 6. Delivery service issues are communicated to the Team Leader within 45 minutes following completion of the customer's call.

FIGURE 6 Competency Point Evaluation Chart

Complexity Level	Description/Definition	Points
6	**Highly Diverse and Highly Complex:** The work is highly diverse and very complex most of the time. Problems and opportunities are not apparent. The work requires planning for, anticipating, identifying and solving numerous interrelated and unrelated problems and opportunities. Critical judgment is always required.	11
5	**Very Diverse and Considerably Complex:** The work is very diverse and considerably complex. Problems and opportunities are not apparent. Often, new approaches to solving problems must be devised while resources and/or precedents are sometimes not available. Considerable on-going judgment is required.	9
4	**Diverse and Complex:** The work is diverse and the tasks are complex at times. Problems and opportunities are frequently not apparent. Must interpret a variety of alternatives and assess ramifications of each option before decisions can be made and problems resolved. On-going judgment is required.	7
3	**Noticeably Diverse and Semi-Complex:** The work is somewhat diverse and offers some complexity in tasks. Problems are not always clearly defined and/or opportunities are not always apparent. Must interpret some established references and precedents to solve problems. Some on-going judgment is required.	5
2	**Minimally Diverse and Minimally Complex:** The work is routine but not highly repetitive and offers minimal complexity in tasks. Problems and/or opportunities are readily apparent. There are a few choices of alternative references and/or precedents defined by standard practice and/or instruction to aid in solving problems. Occasional and minimal judgment may be required.	3
1	**Not Diverse and Not Complex:** The work is routine and repetitive with no diversity in tasks. The tasks offer no complexity at all. The work presents few, if any problems to be resolved.	1

should be determined by considering the nature of the technical competencies, the culture of an organization and other variables. In the system displayed in Figure 6, initially, only labels were defined. During the evaluation committee meetings, members expressed that definitions would be helpful in evaluating the differences in complexity among technical competencies after which definitions were developed.

The last step associated with valuing competencies is to assign points to each complexity level. Again, Figure 6 shows an example of varying the points from a low of 1 associated with the least complex level to a high of 11 points associated with the "highly diverse and highly complex" level. CBP systems with a greater number of competencies and greater diversity in complexity of competencies may require more points per evaluation levels as well as more total points in the ultimate point spread table discussed below.

Evaluating the Competencies

Once the evaluation criteria are established, technical competencies must be evaluated; this process may be the most crucial step of the CBP process. To

assure credibility and integrity of the evaluation results, a cross section of knowledgeable employees and leaders from applicable jobs should be involved in evaluating competencies. A committee lead or consultant should orient the committee members to the evaluation criteria assuring their understanding of meaning and content. It is important that the committee leader tightly facilitate the evaluation process, diplomatically deal with bias and reposition competencies that may be influenced by the halo effect. If gridlocks occur in making decisions about the complexity level/point value of each competency, the committee leader should have full authority to make the final decisions. Competencies should be reviewed, one by one, and evaluated on their own merits using the competency point evaluation chart. The team leader should facilitate ample discussion around each competency and then guide the team to a final competency evaluation. Experience demonstrates that all competencies should be evaluated in one session and not picked up and put down over separate days.

Hohneke of Metro Companies suggests that Metro's competency evaluation process went smoothly because HR leaders "locked ourselves in a room for hours on end, evaluated all the competencies, with some heated discussions and then let it sit for a few days." Later, the team regrouped and made some adjustments with guidance from the consultant. The Metro committee included both office positions as well as employees who had previous experience as drivers, maintenance technicians and/or heavy equipment operators. All members of the Metro CBP team would agree that having definitions attached to the complexity levels helped move the process along as well as provide a leader to guide the process and a consultant to challenge the results.

Building the Pay System

Once the competencies are evaluated resulting in a point value for each competency, a pay structure is designed with traditional pay ranges, broad pay bands or a hybrid configuration thereof. Although, a CBP system is not built around jobs — rather built around technical competencies — jobs must, initially, be priced. The creativity comes in how the job-pricing data is configured to build the pay structure that houses the competencies. There are several methodologies that can be used to develop the pay structure around a CBP approach depending on many variables. Regardless of the method, there are a number of over-arching concepts that apply.

First, it is important to remember that pay will ultimately be determined by the number and combination of competencies that an employee is certified in and for which the business has a need for them to perform. Thus, competencies are not ordered in any given hierarchy like jobs are ordered or leveled. Second, assuming that the greater number of competencies learned, in combination with their respective complexity, the greater the pay opportunity. Third, the pay structure

should encompass a rational pay progression of pay levels (ranges), from low to high, that embody competencies from applicable jobs. And lastly, the resulting pay structure will need to achieve a balance between paying for competencies while assuring a competitive pay structure that ultimately encompasses technical competencies from jobs in the market – from the lowest paid jobs to the highest paid jobs from the job group(s) covered by the CBP program.

As in developing any pay system, compensation strategy must be established. Facilitating leadership to assess strategy relating to industry and geographic area to compare, size and sales as well as other scope criteria applicable to various jobs is essential before jobs are priced. In addition, determining the survey statistic to use and the percent by which survey data will be updated and projected will assure consistent and valid data.

Although there are a number of methods used to develop the pay structure around a technical competency system, one method is summarized here. As Figure 7 demonstrates, this method considers all of the jobs within the CBP system as well as experience levels for respective jobs. Depending on the culture and pay strategy, experience may or may not be a criteria. For Metro Companies' CBP system, a diverse array of jobs was priced. Within this example, the lowest level job of "helper" was priced at the 25th, 50th and 75th percentile. The 25th percentile hourly rate of the "helper" job provides the anchor point for Grade 1 at the low end of the pay structure. Jobs that embodied the highest valued competencies were also priced. In this example, the heavy equipment operator at the 75th percentile at the 20-plus years of experience level serves as an approximate anchor point for Grade 5 at the upper end of the pay structure. As Figure 7 shows, other jobs at various experience levels were also priced to result in an array of job-pricing data representative of the jobs from which the competencies are derived. In this example, a simple calculation demonstrates that the top compensation rate of the highest job/experience level is approximately three times the compensation rate of the lowest job/experience level in the system, $8.70 to $26.00 per hour.

A companion step to pricing jobs is to determine the maximum number of evaluation points in the system as well as how these maximum points will be subdivided into a grade/cluster system as well as the style/width of the ultimate pay ranges. Similar to the design of job evaluation systems, the maximum number of points in a CBP system relates to the number and diversity in complexity of competencies as well as the diversity in compensation from low-valued to high-valued competencies in the market place. The greater the percent difference in compensation, from low to high of the jobs priced, along with the greater diversity among the jobs, the more points required within the CBP system to house all of the competencies. Based on the current number of competencies in the Metro CBP system along with their respective evaluations, currently the total possible number of points is approximately 300. To

FIGURE 7 Competency Point Evaluation Chart

Experience Level	Maintenance Technician			Driver			Heavy Equipment Operator		
	25th	50th	75th	25th	50th	75th	25th	50th	75th
Helper	$8.68	$12.21	$21.03						
1 – 2 yrs	$14.02	$15.34	$16.82	$13.89	$15.55	$17.45	$13.44	$15.39	$18.19
2 – 3 yrs	$15.24	$16.56	$18.03	$14.79	$16.45	$18.34	$13.70	$15.65	$18.22
3 – 5 yrs	$15.95	$17.27	$18.73	$15.40	$17.11	$19.02	$14.30	$16.34	$18.99
5 – 8 yrs	$17.34	$18.74	$20.27	$16.09	$17.88	$19.88	$15.51	$17.75	$20.71
8 – 13 yrs	$18.37	$20.06	$21.89	$16.58	$18.46	$20.55	$16.48	$18.84	$21.95
13 – 20 yrs	$19.13	$20.87	$22.73	$16.96	$18.84	$20.92	$17.73	$20.22	$23.51
20 + yrs	$20.38	$22.87	$25.38	$17.21	$19.21	$21.45	$18.74	$21.63	$25.39

accommodate the potential addition of future competencies resulting from job expansion and to assure that the system is scalable based on business requirements, the total point capability should be greater than the current total possible points in the system today. In summary, a total of 300-plus points were needed to accommodate the future anticipated situation of Metro.

Another step in designing the CBP structure is to subdivide the total number of possible points into a specific number of grades. A starting point to establishing the point spread for the lowest grade is to identify the lowest possible combination of competencies/points that the business would realistically require and that an employee may realistically possess. At Metro, the lowest possible points were somewhere between 5 and 10 resulting in the first point spread of 1 – 10. A multiplier of 2.2 was then used to calculate subsequent point spreads ending at a threshold of 274 points for Grade 6, e.g., 25 × 2.2 = 55, etc. A subsequent decision was made to create a structure of no more than six grades with the highest grade reserved for employees who were not only certified in most technical competencies across all job groups but were also proficient in various "lead" competencies. Most of the lead competencies are highly valued at 9 or 11 points each. All of these concepts were simultaneously considered in subdividing the 300-plus points into the point-spread table displayed in Figure 8

Finally, the pay range for Grade 6 was developed by using an approximate 10-percent midpoint differential from Grade 5 midpoint and using a 45-percent salary range spread to arrive at the pay range minimum and maximum. Market data for lead type roles were reviewed to ensure that this added pay range was market competitive and affordable. Other considerations in developing a CBP structure include determining the style and width of pay ranges. Based on the type of work/jobs within the Metro system, in combination with a pay-progression strategy, Metro chose to use more traditional range spreads on their pay ranges including gradually increasing the spread from Grades 1 through 6. The resulting CBP structure is displayed in Figure 9.

FIGURE 8

Point Spread Table	
Grade	Point Spread
6	274+
5	124 – 273
4	56 – 123
3	25 – 55
2	11 – 24
1	1 – 10

Driving Vertical Job Growth and Paying for Performance

One of the advantages of a CBP system, if designed properly, is that it can be an all-in-one system. CBP can drive vertical and horizontal growth. Employees can experience vertical growth through developing and being rewarded for the acquisition of new and progressively more complex skills and competencies. Employees can see a job progression based on the degree to which they acquire more complex skills that translate into higher valued competencies. At the same time, employees can experience horizontal growth in pay within their base pay range by continually improving performance and delivering higher level results in their same learned competencies.

While many companies have reduced their budgets for training and education resulting in managers having less discretionary income to allocate to employee training programs, CBP can offer a win-win for employers and employees. According to author Jennifer Robison, "Learning and growing isn't just about buying training — it's about helping employees to continue to grow in their jobs, and there are many ways to do that outside the training budget. Providing employees with meaningful opportunities to learn and grow starts with getting to know each person one on one, thinking about their strengths and thinking about the ways they learn best" (2010). Many would agree that companies should start building career pathing efforts with competencies as the foundation (Crisman 2008).

Incorporating a pay for performance feature in the CBP is the frosting on the cake. A recent "Compensation Practices Survey" sponsored by PayScale confirms the highly sought after complementary goal of blending both a merit-based pay plan with learning and growth opportunities for employees. Survey results demonstrate that the majority of companies plan to reward and retain high-performing employees through a merit-based pay plan; the next most common approach is to provide learning and developmental opportunities as rewards, 45 percent (2011). The Competency Based Work and Reward model nicely integrates both of these confirmed survey results. Pay for performance can be successfully integrated into CBP provided that job-related performance criteria exists, there is a culture of coaching and feedback and a practice of rewarding for results.

FIGURE 9

2010 Base Compensation Structure — CBP System
Drivers, Heavy Equipment Operators & Maintenance Technicians

Grade	Base Compensation Range Minimum – Midpoint – Maximum			Pay Range Spread
6	**$20.00 – $24.50 – $29.00**			45%
	Lower Third	Middle Third	Upper Third	
	$20.00 – $23.00	$23.01 – 26.01	$26.02 – $29.00	
5	**$18.60 – $22.30 – $26.00**			40%
	Lower Third	Middle Third	Upper Third	
	$18.60 – $21.06	$21.07 – 23.53	$23.54 – $26.00	
4	**$16.70 – $20.00 – $23.35**			40%
	Lower Third	Middle Third	Upper Third	
	$16.70 – $18.91	$18.92 – $21.13	$21.14 – $23.35	
3	**$14.25 – $17.10 – $19.95**			40%
	Lower Third	Middle Third	Upper Third	
	$14.25 – $16.15	$16.16 – $18.06	$18.07 – $19.95	
2	**$11.85 – $14.20 – $16.60**			40%
	Lower Third	Middle Third	Upper Third	
	$11.85 – $13.43	$13.44 – $15.02	$15.03 – $16.60	
1	**$8.70 – $10.20 – $11.80**			35%
	Lower Third	Middle Third	Upper Third	
	$8.70 – $9.73	$9.74 – $10.77	$10.78 – $11.80	

Administering the CBP System

A CBP system must be rigorously maintained or it will become quickly outdated, will lose credibility and will not provide the scalability that it was designed to achieve based on additions and deletions of applicable competencies. Organizations that are successfully using CBP develop and maintain a set of administrative parameters as well as incorporate a "keeper of the system" to stay on top of administering and communicating the system. Administrative parameters include processes for adding, subtracting and re-evaluating competencies and processes for hiring and/or training into competencies. Sound administrative parameters along with a cohesive compensation strategy assure that CBP systems are expandable and contractible; these features promote ultimate flexibility and scalability to support changes in the business. This makes the CBP tool a valuable organizational asset that supports business strategy.

Certifying and Recertifying Competencies

"A competency certification process (relative to CBP) is similar to a performance appraisal in the traditional pay for performance systems," said Halil Zaim (2007). The purpose of certification is to determine the degree to which an employee has acquired the competency and can adequately apply it to his/her work. Organizations can include competency certification during the initial implementation of the system and/or require periodic recertification on an ongoing basis. The inclusion

and nature of the certification process and tools may be highly influenced by the degree to which industry regulatory agencies require certification. For example, the transportation industry requires various certifications to support DOT regulations, handling hazardous material, drug and alcohol testing and updated commercial driver licensures.

Relative to certification methods, an employee's proficiency in a competency can be determined in many ways and using various tools such as work samples, written tests, peer evaluation, supervisor rating, team assessment and self assessment (Zaim 2007). Whatever method is used to certify or recertify competencies within a CBP system, assessments should be conducted by credible methods and sources that are knowledgeable about the work involved.

Although certification may be a critical component of CBP systems, the reality is that it takes significant time to design certification criteria and consistently administer it. It is best to first design and implement the foundational components of the CBP system, build a measurement culture and then come back one to two years later and develop the certification component using employee participation. Figure 4 demonstrates the components of certification approach. A compromise to including full scale certification criteria is to write the technical competencies to include some measurement criteria. Figure 5 demonstrates this approach.

Putting it All Together

Work and reward systems have evolved to include cross-trained work teams, cellular manufacturing, traditional job-based pay systems, SBP, CBP, broad banding as well as other hybrid methods of integrating work and rewards. To survive and reposition for growth, organizations have had to restructure to align business goals and results. During the recent recession, companies have improved productivity, streamlined processes, combined and downsized jobs and controlled labor costs. While corporate America has been repositioning for growth, employees have become less engaged, fatigued and stressed. Being able to attract and retain high performers is at the top of leaders' priorities today. While there is no one-size-fits-all compensation approach, it appears that CBP is a creative and cost-effective solution to the realities of work design and a viable approach to addressing emerging problems of traditional compensation programs. The critical success factors of CBP include: establishing the business case for CBP, gaining leadership backing and employee buy-in and following the design steps outlined in this article. In developing a CBP system, a goal is to leverage all talent management components including technical and behavioral competencies, KSAs, certification criteria, performance management and pay for performance. There is growing evidence that CBP can provide a creative, cost-effective, flexible and scalable solution to effectively integrating work and reward systems and can play a role in attracting and retaining high-performing employees. ▮

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