

Designing a Pay System for Teams

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Abstract

Skill-based Pay is a method of payment that supports team work and helps create a learning organisation. It is a method of pay progression that rewards individuals for the breadth and depth of skills they acquire. Workers are paid for the skills they are capable of using provided the work organisation gives them the opportunity to use a range of skills. This is in sharp contrast to conventional payment systems that only reward people for the immediate job they are doing.

Skill-based pay, however, is not a stand alone initiative. It needs to be used together with other changes to how work is carried out. It is particularly appropriate for workplaces that have moved away from a traditional, hierarchical, fragmented structure of control to one based on self-managing teams able to rotate different tasks among team members.

The paper outlines examples of key principles that need to underpin a skill-based pay system. Also covered will be a discussion of the difficulties likely to be encountered in moving to the new pay system. Recent experiences in implementing the system in manufacturing and service industry settings will be used to illustrate the issues that need to be addressed in setting up a skills-based pay system.

Relatively few workplaces have implemented skills-based pay systems. Evidence is presented of the low incidence of skill-based pay in the USA, Britain and Australia. On the other hand, survey and case study data show that the most managers strongly endorse the system's effectiveness in improving productivity. These two findings suggest that there are specific workplace conditions that need to be met for skill-based pay to work. The paper provides a checklist of these conditions.

Potential problems such as expense, rapid progression, short-term productivity loss, greater demand for training and assessment are also discussed. The paper concludes with an outline of the implementation process based on list of 10 recommended steps.

BACKGROUND

Recent US research provides fresh evidence of the benefits of using self-managing teams in the workplace. A systematic comparison of 84 self-managing groups and matching traditional work groups was carried out over several years in a large Telecommunications company operating in a variety of functions. The results showed that ratings of performance by employees and managers were higher for the self-managing teams. The study also showed that the self-managing team members had higher levels of general job satisfaction.

Self-managing team members were also more likely to claim that they as a group had made improvements over the last year compared with employees organised in traditional work groups. The results of the study show that the use of self-managing teams improves performance, productivity and quality provided that appropriate technology and work organisation changes are made to support their functioning (Cohen and Ledford 1994).

Other recent evidence also shows that there is a positive relationship between "bundles" of HR innovative practices and various enterprise performance measures (cited in MacDuffie 1995:200). The study was based on data from 62 car assembly plants worldwide. The results showed that plants using production systems that link human resource practices to a production/business strategy do better, in terms of both production and quality outcomes, than plants using more traditional mass production systems (MacDuffie 1995:218).

Setting up of self-managing teams requires that appropriate support arrangements are in place. Another recent large-scale survey of American firms identified a set of innovative HRM practices that underwrite the adoption of flexible work systems. These include innovative pay schemes, extensive training and efforts to generate greater workforce commitment (Osterman 1994:186).

Two important support arrangements for self managing teams are:

- a payment system that reinforces the work of the team; and
- a performance measurement system that records reliably the progress made.

Management need to build systems and put in place processes to support teams. These include the opportunity for team members to acquire the necessary skills such as problem solving as a group, decision making, as well as interpersonal and leadership skills as determined by the performance needs of each team. Also essential are supporting processes such as skill-based pay and team performance pay schemes (Katzenbach and Smith 1993:249).

The task of this paper is to describe what a skill-based pay system is, its benefits, difficulties likely to be encountered, other supporting mechanisms needed and the outline of a series of steps for implementing such a system. Information is also presented on the incidence and effectiveness of skill-based pay.

2. WHAT IS SKILL-BASED PAY?

Skill-based pay rewards employees based on a predetermined set of principles that link pay progression to the number, kind and breadth of skills employees acquire and use. Other names commonly used are "Pay for Skills" or "Pay for Knowledge" (see Jenkins and Gupta 1985).

Skill-based pay is a major change from the traditional job-based pay embodied in most industry or occupation-based awards. Job-based pay is based on a narrow concept of equal pay for equal work. Skill-based pay is concerned with "contributational potential".

Another difference between skill-based pay and job-based pay is the issue of pay for skills acquired or pay for skills used. The skills-based pay system rewards employees for acquiring skills subject to the agreed operating principles. The focus is on encouraging workers to acquire a wider range of skills than they currently hold. The potential benefits to the enterprise and the employee are great compared to a traditional job-based pay system where reward is determined by the skills required for the immediate function performed by the worker.

Three conditions, however, need to be met for a skills-based pay system to work.

- , One condition is the requirement to rotate people between jobs regularly. This is most effectively done through a self managing team taking responsibility for the job rotation.
- , The second condition is to state as one of the operating conditions that workers are required to exercise all the skills for which they have demonstrated their competency.
- , The third condition is to revise the skills matrix regularly (once a year) to ensure that it is relevant to the work performed.

For the employee's potential to be realised, skill-based pay has to be underpinned by radical changes to the way work is traditionally organised such as regular rotation between tasks and the constant upgrading of the competencies required.

3. How a pay for skills system works

The best way to understand how a skill-based pay system works is to spell out the operating principles that are commonly associated with its operation. The following derive from work I have undertaken in a variety of workplaces. Typically, there are four skill levels within a pay band. The underlying skills matrix may have up to 20 skill blocks or modules. There may be more than four pay points to reward employees for the completion of some modules

The first set of principles outline the broad parameters of the pay system, suitable for an initial memorandum of understanding or statement of intent. The second example provides more detail of how the system would work and would normally be the result of negotiations.

3.1 Broad Principles

- The purpose of a skills-based structure is to maximise the flexible use of acquired skills and to provide employees opportunities for career advancement.
- All employees will have the opportunity to progress on the basis of demonstrated competency through a designated pay grouping or band
- Movement between pay bands will be on the basis of promotion to a vacancy. The number of vacancies will be determined by organisational requirements.

- Competency is required to be demonstrated through on-the-job assessment of the required skills.
- It is recognised, however, that not all employees will necessarily attain the highest skill levels within a particular band.
- All employees will be given access to training. However, access to training may be constrained by operational requirements and the availability of training resources.

3.2 A More Detailed Set of Operating Parameters

Basis for progression

- Employees will be paid on the basis of recognised qualifications and on-the-job skills acquisition.
- Progression within a pay band will be on the basis of
 - attainment of recognised qualifications,
 - satisfactory completion of designated training modules where required and the
 - demonstration of specified on-the-job competencies.
- Employees are expected to perform the full range of tasks necessary to complete the whole job in the most efficient and effective way possible with due regard to legal and safety requirements.

Nature of skills to be acquired

- Employees will be required to acquire skills in the two broad categories of
 - technical skills related to control systems, maintenance and health and safety
 - enterprise-specific (value added) skills related to fault diagnosis, problem solving, quality assurance, team work and customer service.
- A skills matrix is to be developed which will list the range of competencies in the above two broad categories of skills.
- Employees are required to exercise any skills for which they have been assessed as competent to perform.
- Existing employees will only be appointed to the new positions on the basis of an undertaking to perform all the duties required for the level to which they are appointed. This will include a commitment by employees to undertake additional required training where necessary and/or to demonstrate the required competencies within a set period of taking up the new position.
- Should any employee be unwilling or unable to qualify or perform the duties of the new positions, they will be entitled to retain their existing pay rate until an appropriate position

can be found.

Training for skills acquisition

- Training will be available, subject to resource constraints, to each employee to enable them to acquire additional skills and therefore to progress to higher skill levels.
- Training is to be externally accredited wherever possible.
- Training to address language or other learning difficulties will also be provided.
- External training is to be undertaken in the employee=s own time. The employer undertakes to reimburse the cost of fees upon the successful completion of their course

Assessment of competency

- Assessment of on-the-job competencies will be undertaken by a supervisor/resource manager (depending on the form of work organisation) together with a peer group of two co-workers with acknowledged competency in the skills being tested. A third party assessor such as a TAFE teacher may be necessary to gain external accreditation.
- Final verification and approval of the competency assessment outcomes will be the responsibility of the relevant line manager.
- The assessment procedure will consist of observation and demonstration of the required competencies in conditions as close as possible to operational requirements
- Any employees unable to meet the required competency standard will have the opportunity to be reassessed after further training has been undertaken
- Full recognition will be given to relevant skills acquired in other work settings

3.3 Performance levels required

Performance standards need to be specified. The relevant Australian Quality Standard, where this has been adopted by an enterprise, can provide the basis for setting the performance levels required for the work undertaken.

A performance-based bonus system may also need to be negotiated. The bonus scheme could focus on additional work that the company wins outside its traditional client base.

4. ADVANTAGES

Skill-based pay can improve the degree of flexibility of how work is carried out. This applies particularly to operators, maintenance tradespeople and others in service settings who can work in a team work environment and/or work situations where the priorities are maximum plant utilisation and response speed (Armstrong and Murlis 1994: 357).

A skill-based pay system extends the skills base of the organisation through increasing the breadth

of skills held by individual employees. It creates a set of incentives by which employees are encouraged to develop progressively their skills at their own paces and in line with the needs of the business (Armstrong and Murlis 1994: 357).

The new pay system can generate a leaner workforce by eliminating excessive manning levels created by narrowly defined job demarcations. Reduction in the number of supervisors is also possible when skill-based pay is combined with the introduction of self-managing teams.

Higher quality output can be achieved because a worker able to do a greater range of jobs. He or she also understands better the whole production process, the importance of quality assurance and their role in it (Jenkins and Gupta 1985).

Other benefits are reduction in absenteeism and labour turnover. This is due to the higher levels of employee job satisfaction and greater sense of commitment to the organisation (Jenkins and Gupta 1985). This will depend, however, on the extent to which a high trust workplace has been achieved.

5. INCIDENCE AND EFFECTIVENESS

Skill-based pay systems, however, are not widespread. A national sample survey in the US of firms listed on the New York and American Stock Exchanges found that 8 per cent of these companies used "pay of knowledge" plans (cited in Ledford 1989:3). Another survey of large US corporations found that 5 per cent used skill-based pay for production and service workers with 89 per cent rating the pay system positive or very positive (cited in Burke nd: 7). A survey of Fortune 1000 service and manufacturing firms in the late 1980's found that 40 per cent claimed to use skill-based pay, broadly defined, with at least some employees, (cited in Ledford 1989:3).

Research in the UK has found that 39 per cent of a sample of 400 firms had introduced some form of skill-based pay. Most schemes applied to technical and operator jobs, although some schemes are operating in the service industries (Armstrong and Murlis 1994:355). In Australia, aggregate data on incidence are not available. The Australian Workplace Industrial Relations Survey showed that 39 per cent of workplaces with 20 or more employees had some form of performance-related pay for non-managerial employees. These arrangements are most likely to refer to payment by results (commission on sales, piece rates) or merit pay (Callus et al 1991:44-45)

There is, however, no specific information on the incidence of skill-based pay in Australia. It is likely that the incidence among large enterprises is no more than 5 per cent, as with large firms in the USA. This is based on the proportion of workplaces identified through the 1990 Australian Workplace Industrial Relations Survey that have adopted progressive human resource practices (Curtain 1992). However, particular examples of workplaces that have set up skill-based pay arrangements are: Woodlawn Mines, Argyle Diamonds, the former Hexham Engineering, Transfield Shipbuilding (Williamstown Dockyard), State Insurance Office in Victoria (now part of GIO), the State Electricity Commission of Victoria (SECV), the Hunter Valley and Sydney Water Boards as well as the Brisbane City Council.

The effectiveness of skill-based pay systems is confirmed by surveys of managers and case study evidence. Research into skill-based schemes in six British companies showed that they were all able to operate with a leaner and more efficient workforce than would have been possible with more traditional job-based systems incorporating strict demarcation lines (Armstrong and Murlis

1994:354).

A study of 19 skill-based pay systems in the US for the US Department of Labour reported that almost all managerial respondents saw them as having positive effects of varying intensity. No respondents saw them as having negative effects on a variety of outcomes (cited in Ledford 1990:3). Positive outcomes reported included workforce flexibility, labour and overall cost reductions, better quality, higher output, lower absenteeism and turnover and better labour-management relationships. The manager respondents also reported a positive impact on effectiveness from the employees' perspective, including improved employee satisfaction, motivation and commitment.

A second study of more than 1600 organisations in the US showed that the overwhelming majority (70 per cent) of managerial respondents with skill-based pay systems showed that there had been a "positive" or "very positive" influence on workplace performance (cited in Ledford 1990:3).

Employee satisfaction with pay in skill-based pay systems in the US has been found to be higher than in other companies (cited in Jenkins and Gupta 1985:3). However, some case study evidence in the US and Australia is more mixed. Ledford studied the operation of skill-based pay systems in six US manufacturing plants. He found that the new pay system was "outstandingly successful in two plants from the employee perspective, successful in two others, a mixture of success and failure in two cases and a failure in one" (Ledford 1990:4).

The efforts by large public sector organisations in Australia to introduce a skill-based pay system have been less than successful. This was the case for the Brisbane City Council and the State Electricity Commission of Victoria (SECV) (Curtain 1992, Burke n.d).

Burke in his survey of attitudes to the skills extension program at the SECV found that the deficiencies in the mechanics of the program significantly detracted from its effectiveness. Burke details the following as the main shortcomings of the organisation-wide new pay system:

- the generous transition arrangements to win union acceptance of the new initiative,
- the speed with which employees could progress to the top of a pay band without the safeguard of a "pay back" period,
- the lack of overall rigour in the assessment process and
- the absence of worthwhile job redesign (Burke nd: 47).

All these factors were said to combine to erode the program's long-term potential benefits concerning multiskilling and workforce flexibility (Burke nd: 47). These deficiencies suggest that there are important preconditions that need to be met for skill-based pay systems to work effectively.

The low incidence of skill-based pay arrangements despite their record of being highly effective strongly suggests that they are only likely to work under certain conditions. A careful assessment of whether these conditions can be met should be the starting point for an enterprise in judging the value of a skill-based pay system for its operations.

6. PRE-CONDITIONS FOR SUCCESS

From my experience and a close reading of the available research on skill-based pay systems, I suggest that the following nine pre-conditions need to be present for effective implementation (see Jenkins and Gupta 1985, Ledford 1989 and Burke nd). These same preconditions are also likely to apply to setting up self-managing teams.

- **Fit with organisation culture:** the workplace needs high levels of employee commitment. A participative management culture is a necessary prerequisite to gain employee commitment. Management need to be relaxed about entering into an open-ended process, confident that they can solve problems as they emerge.
- **Need for a clear role for external union officials and workplace representatives.** A distinction needs to be made between integrative bargaining (consensual problem solving) and distributive bargaining (win loss bargaining over pay quantum and other conditions of employment). Separate mechanisms such as a project group and an enterprise bargaining unit need to be set up to reflect these differences.
- **An appropriate IR framework.** In an Australian context, this is likely that a comprehensive enterprise agreement will be necessary which goes beyond the award and its job structure. There may be circumstances, however, where an industrial award can be used if it is sufficiently flexible.
- **Specific focus needed:** the range of skills to be covered by a skill-based pay system, like the development of teams, needs to be focused on the "critical delivery points". This refers to the parts of the enterprise where a company's product and services are most directly determined such as where accounts are managed, customer service performed, products designed and productivity determined (Katzenbach and Smith 1993:247).
- Management need, therefore, to have a clear idea about where in the organisation new working arrangements will have the greatest impact and the set of skills needed to lift performance now and in five years time.
- **Need for operating autonomy:** the workplace chosen for the new pay system needs to have a high degree of operating autonomy. The need for this specific, autonomous workplace focus means that a skill-based pay system is unlikely to work well as an across-the-board pay system in a large organisation, particularly one that is highly centralised as is common in the public sector (as the SECV example above proves)
- **Fit with technology and business objectives:** the new pay system must be closely linked to business objectives and therefore developed in response to concerns about the need to improve performance. Change in response to wage or other pressures external to the workplace are likely to doom the system from birth.
- **Employee involvement in the design process:** the extent of employee involvement in the design and application of the new pay system will also be an important determinant of its success.
- **Acceptance of initial upfront costs:** CEO commitment is also required because of the

additional costs that the skill-based pay system will entail. The demand for training as well as the higher pay and administrative costs need to be acknowledged and accepted on the basis that it is an investment with medium term returns. This is discussed further below.

- **Internal champion needed:** a champion or internal change agent is a necessary ingredient. The new system requires some to coordinate many issues to ensure that it all comes together. The process also requires a strong advocate to ensure that those with doubts and concerns about "where it is all going" are answered.
- A champion from line management is preferable to someone from a human resources or personnel department as there will be conflicts between production demands and the employee demand for training.
- The use of an external consultant is likely to be needed to "kick start" the process and to be a reference point as the process unfolds.
- **The new system needs to be credible, consistent, objective and rigorous.** This is achieved through linking it closely to business performance, working from an initial set of principles, gaining employee input and judgment of its fairness and developing an assessment process that is rigorous. The absence of these conditions was particularly noticeable in the case of the SECV cited above.
- **Needs to be part of an integrated strategy:** research evidence cited above for the car industry shows that performance gains only come from using an integrated suite of innovative human resource practices. The introduction of a skill-based pay system alone may have a negative effect on performance because of the upfront costs involved.

7. POTENTIAL PROBLEMS

Several potential problems with skill-based pay systems have been identified. These include:

- expense,
- "topping out" and too rapid a progression,
- rotating work among inexperienced workers with short-term productivity loss and
- increased and persistent workforce demand for training.
- inadequate assessment procedures

7.1 Expense

Skill-based pay can be seen as expensive to introduce and maintain because the system requires a considerable investment in skills analysis, training and testing (Armstrong and Murlis 1994:357). There is evidence from the UK that companies introducing skill-based pay systems have underestimated the cost involved and have found it difficult to quantify the benefits (Armstrong and Murlis 1994:357). Costs can increase in three areas: hourly labour costs, training costs and overhead costs (Jenkins and Gupta 1985: 4).

In most cases, hourly labour costs are higher under a skill-based pay system compared with job-based pay. The entry pay rate may be lower than prevailing pay rates but as workers learn new

skills, they can progress rapidly through the higher pay levels. An average worker under skill-based pay, therefore, is likely to have a higher pay rate than a worker on a traditional pay system in a comparable company. Most employees under a skill-based pay system are likely to be earning higher wages.

The cost of skill-based pay will be offset against the lower total labour costs due to a leaner workforce size. Nevertheless, the system may be more appropriate for more capital intensive operations where labour costs are a low proportion of total costs.

Although in theory only necessary skills are included in the skills matrix, in practice individual workers will not be using them all the time and some may be used infrequently (Armstrong and Murlis 1994:357). This suggests that there is a need for management and the self-managing work team to ensure that the work is rotated regularly. There is also a need to revise and update the skills matrix to ensure that it retains its relevance.

Increased training costs are inherent in the nature of a skill-based pay system. Workers need to acquire new skills to be able to rotate through different jobs. The ratio of the length of time spent learning a job to the length of time spent actually doing the job can be high under a skill-based pay system. Typical ratios are between five and 10 per cent of the workforce off on training at any one time. The higher end of the range is more likely to apply in the initial stages of establishing the new system. UK data suggest that 80 to 120 hours are provided for training per year per person in a skill-based pay system (Armstrong and Murlis 1994:357).

The cost of developing new training modules also has to be taken into account. This may include the cost of purchasing off-the-shelf courses and/or developing modules using in-house resources such as workers with Train-the-Trainer training. Some workers may also require additional training to lift their levels of basic literacy and numeracy.

The third aspect of expense to be considered is the overhead costs. Keeping track of an employee's rotation across jobs and through pay levels requires more record keeping. The process of assessing demonstrated competency will also entail additional costs. If a skill-based pay system is introduced to support self-managing teams, this information will be handled by the team itself. Nevertheless, a system for recording the skills attainment of each employee is required as well as an easily accessible system listing the competencies and training required.

Increased attention may also need to be paid to the recruitment process. This is to ensure that new entrants to the system have the requisite basic education in literacy and numeracy and preparedness to participate in a continuing process of skills acquisition.

7.2 "Topping out" or too rapid a progression

Employees may progress quickly to the top rate within one to two years. Frustration may result as they have acquired the full range of skills and there is nowhere else to go. "Topping out" can lead to discontent when employees have become accustomed to learning, growing and receiving higher pay. Several points are worth noting which show that this problem is likely to be less significant than it appears.

Advancement may be slower than anticipated because of the constraints imposed by production requirements and bottlenecks in training. This was the case in three case studies conducted by

Ledford (1991). There is also evidence from US studies and Australian experience that not all workers do reach the top grade. US data show that most employees tend to stop advancing before reaching the top level if they are not required to reach the top (cited in Ledford 1989:10).

The problem of rapid progression is addressed in some companies by establishing a "pay back period" to ensure that the organisation is reimbursed for its investment in employee training (Lawler and Ledford 1985:35). A minimum time limit is set to ensure that employees do not pass through the skill acquisition process too quickly, learning few, if any of the skills well.

The concept of "time in rank" used in the military is relevant here. This helps to ensure that workers can consolidate their skills through relevant work experience. In the case studies of two manufacturing facilities and a telecommunications company in the US, four years was the average length of progression through the system (Ledford 1991:16)

Other schemes require regular reassessment of competencies and refresher training to ensure that the skills held are still able to be performed at the required level of proficiency and are relevant. The relevance of the skills matrix needs to be constantly reviewed. The skills initially identified may become obsolete due to changes in technology, work methods or the loss of certain types of business.

Gainsharing or other profit sharing schemes might also be considered to maintain a focus on improving performance. The advantage of a group bonus system is that it focuses attention on measurable outcomes assessed on a regular short-term basis (eg every three months).

7.3 Short-term productivity loss

It is likely that there will be some productivity loss as inexperienced workers are rotated through new jobs after acquiring the skills necessary to do the work. This needs to be offset against the long-term gains in productivity that are likely to result. The immediate sources of objections are likely to be production managers and first-line supervisors who often want to lock the most experienced worker into a particular job. The pay back period for the higher productivity gains may not be as long as some might anticipate. Jenkins and Gupta (1985:3) report that a new pharmaceutical plant with a skill-based pay system was able to out produce within 15 months its sister plant without a skill-based pay system.

7.4 Increased demand for training

The attitude of employees to training changes markedly under a skill-based pay system compared with traditional working arrangements. Under the latter, training is viewed as a luxury that can be deferred at the first sign of a shortfall in the budget or a slip in the production schedule. A pay-for-skills scheme changes this pattern because employees pay rises depend on receiving training to learn new skills. Employees now come to insist on receiving training. As Ledford (1991:17) notes based on his analysis of three case studies:

Implementing Skill-based pay without providing adequate training is like dangling an unreachable carrot in front of employees; it breeds resentment and anger.

Ledford goes onto to note that all three companies he studied greatly increased the amount of classroom and on-the-job training following the adoption of a skill-based pay system. All three

companies, however, struggled to balance employee demand for more training with the need to maintain organisational performance. Performance could not have been maintained if all employees were constantly in learning mode.

On the other hand, if training is regarded as an integral part of a high performance enterprise, a pay-for-skills scheme will help to ensure that managers and workers both support the need for adequate resources to be made available to give to all those who want the opportunity to train.

7.5 Adequate assessment procedures

The need to have in place a highly reputable method for assessing skills has already been mentioned. There is, however, no set or preferred way of doing this. However, US data show that, in 84 per cent of cases, the first-line supervisor is the most influential in deciding whether an employee has completed a skill block successfully (Burke nd: 4). Ledford's case studies show that three different approaches were used. These approaches differed in terms of the methods used to certify skills, who does the certifying, whether reassessments are conducted and the fate of employees who cannot pass or choose not to undergo competency assessment.

The least formal approach was in a manufacturing plant. The assessment process consisted of co-workers updating checklists each time an employee learnt a new skill. Several checks and balances were developed to make sure that these informal assessments were done appropriately. In another manufacturing facility, the procedures were more formal. Assessments were carried out by the supervisor, a technical resource such as an engineer, the team leader and peers. Testing procedures included work samples, oral questioning and written tests. Assessments are conducted annually and are supplemented by performance appraisals and reassessments of skills previously demonstrated.

The assessment process in a telecommunications company was also elaborate and was said to resemble a performance appraisal process. The key players in the assessment process were the employee's supervisor, a management review committee and human resource professionals (Ledford 1991:18).

8. HOW TO IMPLEMENT A SKILL-BASED PAY SYSTEM

The following twelve steps are suggested to show the process required to implement the pay system.

- Step 1:** Management need to select an internal champion to provide leadership for the new set of arrangements.
- Step 2:** Management and workforce representatives need to discuss the definition of objectives, work group focus, operating principles, processes involved and clarification of resources required and reach a memorandum of understanding
- Step 3:** The internal champion needs to select an appropriate project group and the principles under which they will carry out their task. These principles need to focus on their problem solving role.
- Step 4:** Project group discusses/refines operating principles for the skill-based pay system

including the principles to underpin the assessment process and transition arrangements.

- Step 5:** Project group identifies and groups all the required skills/competencies. American research shows that the average number of skills modules in a skill-based pay system is about 20, with 15 the maximum number of blocks an employee is required to learn.
- Step 6:** Develop skills matrix from information gathered by project group
- Step 7:** Validate the information collected by the Project group by checking with other members of the workforce on an individual basis
- Step 8:** Project group links skills matrix to four skill/pay levels by rating skills according to complexity and difficulty of learning.
- Step 9** Project group finalises/endorsees four levels for the skills based pay system including the procedures for assessing demonstrated competency.
- Step 10** Management and the enterprise bargaining unit negotiate base rates of pay for four skill levels and settle the number of pay points for completing a certain number of skill modules
- Step 11** Nominated workforce members to undertake Train the Trainer and workplace assessor courses and devise skill training modules
- Step 12** Assess the competencies of each member of the operational workforce

9. CONCLUSION

This paper aims to provide an objective assessment of the strengths and weaknesses of a skill-based pay system. In the same vein, the following quotation from a highly regarded American text entitled **Managing Human Assets** offers a balanced assessment of the approach. The quotation in particular highlights the need to ensure that the right preconditions exist.

Skill-based pay systems hold out some promise of improving competence in a cost-effective way and enhancing both organisational effectiveness and employee well-being. They are not right for all situations, however. Because they depend heavily on solving the problem of measuring and assessing skills or competencies, only an organisation with the right climate of trust and an effective process of evaluation is likely to use the system successfully.

Without the appropriate culture and process, even a new and innovative [reward] systems will not work. Moreover, skill-based [reward] systems are only right for those organisations in which skill requirements are high and are undergoing constant change. They are hard to introduce in existing organisations where a traditional [pay system] already exists (Beer et al. 1984:134).

Skill-based pay can only work effectively in a high trust workplace or at least one that is attempting to move in that direction. The operating principles need to be based on the belief by all participants that particular problems or uncertainties can be ironed out jointly. A common focus

and agreement on the process for solving problems are essential conditions for the system to work.

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Autobiographical note

Richard Curtain has specialised since 1986 in developing innovative workplace arrangements in a number of different work settings. His particular expertise covers strategic approaches to negotiation; development of appropriate performance indicators and data collection and processes to facilitate workplace change.

Richard has been successful in operating as an "internal consultant" both at the level of enterprise-wide strategy (Public Transport Corporation, Rural Water Corporation) and at the "hands on" workplace level (Waterfront, Williamstown Dockyard).