Fact Brief

Broadbanding: In-Band Progression

<table>
<thead>
<tr>
<th>Profiled Institution</th>
<th>Industry</th>
<th>Employees</th>
<th>Revenues</th>
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<tbody>
<tr>
<td>A</td>
<td>Telecommunications</td>
<td>More than 100,000</td>
<td>More than $20 billion</td>
</tr>
<tr>
<td>B</td>
<td>Energy</td>
<td>2,000-10,000</td>
<td>$2 billion-$5 billion</td>
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<tr>
<td>C</td>
<td>Telecommunications</td>
<td>10,000-50,000</td>
<td>$2 billion-$5 billion</td>
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<tr>
<td>D</td>
<td>Telecommunications</td>
<td>50,000-100,000</td>
<td>$10 billion-$20 billion</td>
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<tr>
<td>E</td>
<td>Information Technology</td>
<td>10,000-50,000</td>
<td>$5 billion-$10 billion</td>
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Issue Overview:

Broadbanded compensation systems are useful tools for companies wishing to target and reward the individual employee, rather than the position. Broadbanding allows employers to place a greater emphasis on individual work and performance by de-emphasizing promotions. In eliminating a focus on promotions, employees instead concentrate their efforts on personal development and achievement as they move both within bands and into other compensation bands. By creating flatter organizations with only few encompassing bands for pay, employers can encourage broadly skilled workforces while reducing the administrative effort on the part of the HR department.1

With broadbanding’s lessened emphasis on promotions, however, many employees struggle to understand the significance of their alternative means of career progression. Although employees recognize the advancement and accomplishment associated with moving from one compensation band to a higher band, employees are less aware of the relevance associated with progression within single compensation bands.

To ensure employee satisfaction, companies must find ways to identify and motivate employees as they move and progress within bands. This brief serves to offer examples of ways with which companies recognize the in-band progression of their workforce.
## Executive Summary

Profiled companies revealed the following trends in broadbanding and the in-band progression of employees:

<table>
<thead>
<tr>
<th>Observation #1: In-Band Progression Not Entirely Common</th>
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<tr>
<td>Movement and progression within compensation bands is not often noted or acknowledged. Two companies specify that the majority of their employees lie within bands designated for exempt employees. These bands offer many varied job opportunities; however, company representatives state that most employees spend the majority of their career in the same role.</td>
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<table>
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<tr>
<th>Observation #2: In-Band Progression Recognized on Case-by-Case Basis</th>
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<tr>
<td>Only one profiled company recognizes in-band employee progression identically to traditional promotions, offering employees compensation increase and title change. Other profiled companies reveal that their broadbanded systems offer little opportunity to recognize employees progressing within compensation bands. One company offers career development opportunities for in-band progression. Employees at three companies can receive title changes with in-band progression, although this practice is not necessarily standard.</td>
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<th>Observation #3: Communication is the Key to Employee Satisfaction</th>
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<tr>
<td>Profiled companies agree that the root to successful broadbanding is thorough communication about the compensation system. Three companies state that there is no employee resistance to the broadbanded system and that this is a direct result of the high level of communication and comprehension of the system, on the part of the company and the employees, respectively. In contrast, two companies specifically state that employee resistance and dissatisfaction with the system stems from the employees' lack of understanding about broadbanding.</td>
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Broadbanding Structures

The following figure illustrates the compensation bands of **Company A** (bands represented by letters) and **Company B** (bands represented by numbers):

**Figure 1: Broadbanding Structure for Company A and Company B**

- **Company A and Company B** have similar broadbanding structures; the most notable difference is that Company B does not include leading executives and officers in its broadbanding system.
Broadbanding Structures (Continued)

Company C’s broadbanding system is highly overlapping and encompasses 11 compensation bands. The bands are designated as follows:

<table>
<thead>
<tr>
<th>Broadbanding Structure</th>
<th>In-Band Progression</th>
<th>Lessons Learned</th>
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**FIGURE 2: Broadbanding Structure for Company C**

1. All Non-Exempt Employees

2. Some Non-Exempt Employees; Intermediate Level of Individual Contributors and 1st-Level Supervisors

3. Senior Managers

4. Directors

5. 1st Level Vice Presidents

6. Vice Presidents

7. 1st Level Vice Presidents

8. Senior Vice Presidents

9. Executive Vice Presidents

10. Chairman and CEO

The representative from Company C estimates that 90 to 95 percent of the company’s workforce lie in bands one through six. The remaining five to 10 percent of the company consists of approximately 30 executive who are located in bands seven through eleven.

Broadbanding structures were not available for Company D or Company E.
In-Band Progression

Companies do not often note or acknowledge movement and progression within compensation bands. Two companies specify that the majority of their employees lie within bands designated for exempt employees. These bands offer many varied job opportunities; however, company representatives state that most employees spend the majority of their career in the same role.

Movement within Bands

Interviews with representatives of profiled companies reveal that movement within compensation bands is not often noted or acknowledged by company.

- **Company A** states that employees very rarely move within compensation bands. Lateral moves are primarily the company’s only form of in-band progression and occur rarely and most often consist likewise of geographic moves. Geographic transition and movement occurs only if and when the company determines that there is no individual in the select location who can fulfill the job duties necessary. Only then will the company relocate an employee for a position within the same band.

- **Company E** states that the majority of the workforce consists of exempt employees. Although in-band movement does occur, it is not particularly frequent and many of these employees remain in the same role for the majority of their careers.
In-Band Progression (Continued)

Only one profiled company recognizes in-band employee progression identical to traditional promotions, offering employees compensation increase and title change. Other profiled companies reveal that their broadbanded systems offer little opportunity to recognize employees progressing within compensation bands. One company offers occasional rewards for in-band progression. Employees at three companies can receive title changes with in-band progression, although this practice is not necessarily standard. The greatest trend among companies with broadbanded compensation systems is to recognize employees moving within bands with opportunities for career development and training.

Means of Recognizing In-Band Progression

Due to the lack of frequent in-band movement, companies cite little opportunity to recognize employees as they transition to new job positions within compensation bands.

The following chart displays the means with which profiled companies recognize in-band progression:

<table>
<thead>
<tr>
<th>Company</th>
<th>Compensation Increase</th>
<th>Title Change</th>
<th>Career Development Opportunity</th>
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<tbody>
<tr>
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<td>B</td>
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Research finds that title changes and compensation increases are the most common means of recognizing employee movement within compensation.

Case-by-Case Recognition for In-Band Progression

Interviews with representatives from profiled companies reveal that companies recognize employee progression within compensation bands on a case-by-case basis. With individual bands stretching as large as 250 percent (Company A), there are too many progression levels and paths for company representatives to offer any set formula or guidelines for compensation increases, title changes or career development opportunities.
Council findings regarding companies’ recognition of in-band progression include the following:

**Compensation Increases**

- **Company D** awards compensation increases, totaling up to 20 percent of base pay, for employees taking on additional responsibility. Examples of additional responsibilities were not available, due to the particularity of individual job roles and functions.

- **Company C** and **Company E** award employees compensation increases for progression within bands based upon market data for the new position.

- This compensation change is considered to be a private means of recognition.

**Title Change**

- **Company A**, **Company B**, **Company C** and **Company E** recognize employees’ in-band progression through title changes.

- This compensation change is a public means of recognition.

**Career Development Opportunity**

- In addition to compensation increases and title changes, **Company E** likewise recognizes employees’ in-band progression and achievement by awarding them with career development opportunities.

  The interviewee at **Company E** states that employees voice their value for learning and development opportunities. These opportunities provide employees the means for continuing to further their competencies and proficiencies so that they may continue to move onto higher levels within the same compensation band and to move into higher compensation bands themselves.

- This compensation change can be either a public or private means of recognition.
Lessons Learned

Profiled companies agree that the root to successful broadbanding is thorough communication about the compensation system. Three companies state that there is no employee resistance to the broadbanded system and that this is a direct result of the high level of communication and comprehension of the system, on the part of the company and the employees, respectively. In contrast, two companies specifically state that employee resistance and dissatisfaction with the system stems from the employees’ lack of understanding about broadbanding.

**Communication is the Key**

Profiled companies agree that broadbanded compensation systems are most successful when employees have a sound comprehension of both the company’s policies and procedures as well as employees’ individual placement and role in the system.

**Company A, Company C and Company E** cite no resistance from employees seeking further recognition of in-band progression. In each instance, company representatives state that employees are well informed about broadbanding in general, about the company’s policies concerning in-band progression and progression from one compensation band to another. In addition, these companies clearly communicate to employees the job requirements and responsibilities involved in their movement within compensation bands or from one band to another.

**Company B**’s lack of complete success with broadbanding also testify to the necessity of thorough communication on the part of the compensation department.

The company notes employees’ lack of understanding and consequential dissatisfaction with the company’s broadbanded compensation system. Company B employees’ lack of total comprehension about broadbanding caused employees to take compensation evaluation into their own hands. Employees continuously compared their compensation with their co-workers’ and often complained about their relative status. The representative at Company B states that these complaints were most often unfounded and a result of a simple misunderstanding of broadbanding and the company’s policy with broadbanding.
The Corporate Leadership Council conducted a comprehensive search of published materials regarding the subject, drawn from previous Corporate Executive Board research, trade press journals, other research organizations and the Internet. Council staff then interviewed human resources professionals at five U.S.-based corporations. These individuals discussed employee progression and the recognition of employee progression within broadbanded compensation systems. This report represents the findings from these secondary and primary sources.

1. How does the company recognize “in-band progression” (not necessarily promotion to a new compensation band) in a certain manner beyond additional compensation? (e.g., title change, reward, etc.)
2. Has the company countered resistance from employees who seek recognition of “in-band progression”?
3. How has the company mitigated this resistance?
   ▪ What career “marking systems” does the company use? (e.g., titles, compensation, invitations to high-level meetings, etc.)
   ▪ What is the level of employee satisfaction with this approach?
   ▪ What lessons have been learned in migrating toward a broadbanding approach?
4. What is the average tenure in job/role?

Table 1: Companies’ Methods of Recognizing In-Band Progression Page 7
Figure 1: Broadbanding Structure for Company A and Company B Page 4
Figure 2: Broadbanding Structure for Company C Page 5
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1 Kathryn Tyler, “Compensation Strategies can Foster Lateral Moves and Growing in Place,” HRMagazine (April 1998). (Obtained through Lexis-Nexis, a division of Reed Elsevier, Inc.)