



TenStep Supplemental Paper

13 January 2004

Broadbanding

Broadbanding is a strategy for salary structures that consolidates a large number of pay grades into a few "broadbands."

Benefits of Broadbanding

Broadbanding has been successfully implemented in large hierarchical organizations that have attempted to flatten their organization's structures and remove levels of management. For example, organizations that had eight levels of management could eliminate four levels, widen the salary ranges of the remaining four, and simply slot each manager into one of those ranges. With broadbanding, a manager can more easily encourage employees to broaden their skills and abilities.

Potential Problems with Broadbanding

Broadbanding is not a perfect solution. Problems can arise in several areas.

- Salary ranges provide a mechanism to control the salary growth of individual employees, and thereby the salary costs of the organization. With salary ranges, an employee's salary is maintained at a certain point until he or she acquires the skills necessary for advancement to the next position. Broadbanding, with its high salary range maximums, does not have the salary control feature of the traditional salary structure.
- Maintaining the perception of pay equity can be more difficult. If two employees are in the same broad salary band doing similar work, and one employee is paid near the bottom of the range and the other is paid near the top of the range, how do you justify the salary differential for the two employees? A pay discrimination charge could be difficult to defend.
- Broadbanding reduces the opportunity for promotion to a higher salary range since there are fewer salary ranges. Yet promotions are valuable. Typically, a professional will receive two promotions within his/her first five years after graduating college. The frequency of promotions early in the employee's career correlates with the steepness of the new employee's learning curve and added value to the organization. Promotions provide a vehicle for accelerating the salary of new employees to help ensure their retention in the company.
- Broadbanding is different from market pay practices. Paying too much relative to the market could mean higher product costs than competitors.

Conclusions and Recommendations

Broadbanding is an attractive alternative to rigid, structured, specialized, and hierarchical organizations. A solution that captures the benefits of both broadbanding and a traditional salary structure includes:



TenStep Supplemental Paper

- Salary ranges with a 50% to 60% spread between the salary range maximum and minimum.
- A limited number of broad and general job descriptions.
- A flat organizational structure with a limited number of pay levels.
- Advancement criteria that includes the attainment of a broad set of skills.