

# Skill-Based Pay Program for Mechanics

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**H**uman resource professionals constantly hear from management about the need for flexibility in pay systems. Managers frequently stress that it is too difficult for positions to be reclassified within narrowly defined classification structures. In 1993, the chief engineer of operations for the North Carolina Division of Highways (NCDOH) requested that the North Carolina Department of Transportation (NCDOT) Personnel Office conduct a classification study of maintenance employees. Working in conjunction with the Office of State Personnel and technical work groups representing the four highway operations functional areas (highway maintenance, bridge maintenance, traffic services, and roadside environmental), the NCDOT Personnel Office developed, and is currently piloting, a skill-based pay (SBP) program.

The program affects approximately 4,000 employees. Some of the objectives of SBP are flexibility, generic and broad classifications, equity, career development, and market competitiveness. The program also links with the performance management system. One goal of SBP is to encourage employees to gain skills the employer can put to use, thereby helping employer and employee alike. Different skills are grouped into skill blocks, each with its own compensation value. A key point is that the skills must be used on the job—not just obtained by the employee. Once an employer can put an employee's new skills to use, that employee is eligible for additional compensation. As NCDOT moves ahead with its SBP initiative, several other DOH areas are being considered for a similar program (e.g., mechanics and construction technicians).

This paper covers SBP basics, such as processes, structure, and results of the NCDOT program, along with information on how this program may be applied to other areas such as mechanics.

## **PROGRAM OVERVIEW**

Skill-based pay (SBP) has been utilized by many private organizations that also use pay options such as merit and gainsharing. SBP appears to work best when an organization needs a flexible, multi-skilled work force that is compensated based on depth or breadth of skills performed. This compensation approach differs from the traditional “whole-job” compensation approach now utilized by state government.

An SBP program, also referred to as knowledge-based pay, is designed to encourage and reward employees for the acquisition of skills needed by an organization to increase efficiency and flexibility. This program provides a way for an employee to progress through a pay range based on the employee's added value to the organization. Employees are paid based on the number of skills they can perform. It should be noted that additional compensation would not be awarded for an employee's mere completion of training; additional compensation is not awarded until the employee has been assigned additional duties based on his or her newly acquired skills.

Skills are grouped into *skill blocks*, tasks or groups of duties that are smaller than whole jobs. Thus, a traditional “whole job” may represent several skill blocks. The skill blocks may represent horizontal or vertical skills. Potential benefits of implementing an SBP program include greater productivity; improved quality of work; greater cross training of the work force; a flexible, multi-skilled work force; higher levels of pay satisfaction among employees; and higher employee performance.

Research has shown that SBP is most useful and productive in a work environment where organizational performance depends upon good coordination and teamwork among individuals. It is useful also for situations where cross training or a multi-skilled work force is needed to cover continually increasing workload without increasing staff levels. In addition, some organizations are now utilizing SBP for individual whole jobs or an individual classification in which employees work more independently.

SBP can increase efficiency by several means. It can allow employees to cover for absenteeism and turnover, it facilitates shifting of tasks or assignments depending on workload demands, and it can provide better customer service or delivery. SBP appears to work better in organizations with a participatory management philosophy that stresses employee involvement in decision making. Even if an organization does not have this philosophy, horizontal SBP can address service and efficiency issues in a way that will allow the organization to do more without increasing staffing levels. By using SBP, the organization also allows employees to receive increases in pay, which may lessen turnover, allow greater job satisfaction, and lead to better job performance. SBP may also be an advantage in those organizations where the organization either has created or wants to create a flat rather than hierarchical organizational structure. If an organization wants to eliminate layers of supervision, it may do so through development of a more skilled and multi-talented work force that requires less supervision, as well as by giving employees more authority to make decisions.

However, an SBP program has some costs that an organization must be willing to absorb. For example, an organization must be willing to invest money and time into employee training (on-the-job or formal classroom development training, or both) to build employees to the described skill levels. An organization also will need to accept the fact that it may not have the most qualified employee performing the work on every job.

NCDOT needed to develop a flexible and multi-skilled work force to meet the anticipated challenges of declining personnel resources, increased contract administration, and continuous increases in maintenance of existing and new paved roads. Therefore, the Office of State Personnel (OSP) proposed an SBP program in lieu of conventional range revisions to achieve NCDOT’s personnel goals. NCDOT and OSP began developing the SBP program in the fall of 1995 with significant input and support from NCDOT field and central maintenance management, as well as from representatives of other State agencies.

As previously mentioned, the goal of SBP is the development of an employee with diverse skills in a given operational area. SBP enables career-ladder opportunities and provides management with a flexible tool for developing an efficient and multi-skilled work force. To accomplish this goal an SBP concept was developed:

**SBP Concept:**           Base Job  
                                   + Training  
                                   + Skill Certification  
                                   + Assignment and Performance of New Duties  
                                   = Skill-Based Pay

Unlike traditional class series, employees in NCDOT's SBP program remain in the same broad class, that of Transportation Worker. The following provisions govern salary increases for employees:

- Employees receive incremental increases as they attain new skills and are assigned new duties. These increases conform to the State's In-Range Salary Adjustment Policy, which limits pay increases to 10 percent per year.
- When duties for which salary increases have been awarded are removed, employee salaries are reduced. Employees are informed of this prior to entering the SBP program.
- Employees who do not progress in the program due to their capabilities, lack of desire, or lack of organizational need will not receive increases under the program. Increases for these employees will be limited to salary increases granted by the Legislature.
- Employees' salaries will be measured against prevailing market rates on a regular basis. If needed, salary rates will be adjusted to conform to changing market conditions.
- Employees exiting the SBP program and moving into higher-level classifications are subject to the New Hire provisions of the State Personnel Pay Policy.

## DEFINITIONS

- *Base job*: A general range of duties and responsibilities as outlined in a position description and class specification.
- *Skill base*: The value an employee adds to a job by his or her ability to perform more diverse or complex skills above and beyond the general job concept as well as the value added to the organization in its ability to more efficiently complete operations by diversifying job tasks. The savings come from pooling (potential) and mobilizing (actual) diverse skills.
- *Skill-based pay*: Eligibility for increase in salary within a salary range that depends on management's recognizing of individual employee skill development and the agency's need to employ new skills in ongoing operations. The intent of skill-based pay is for compensation of work performed. Training accomplished is not equivalent to work performed.
- *Skill blocks*: Tasks or groups of duties that are smaller than whole jobs. Skill blocks may represent horizontal as well as vertical skills. Skill blocks are sets of tasks deemed operationally significant by NCDOT management. Each task has a relative internal value and corresponds to a training and/or certification opportunity provided or facilitated by NCDOT.

- *Skill-based pay administration*: Agency documentation that registers an employee's progress in a skill block and indicates specific activities for which the individual is being compensated.

## **RULES, CONDITIONS, AND LIMITATIONS**

The following provisions have been established for allowing employees to participate in Maintenance-sponsored SBP training:

Employee shall have a "good" or better performance management evaluation and not be under disciplinary action of any type. For the purpose of this policy, the definition of *good attendance* is an employee's not being placed on leave-without-pay status during the preceding evaluation period. Exceptions to this policy are

1. Any employee who has been forced to go on leave-without-pay status due to personal illness as covered or defined by the Family Medical Leave Act (FMLA).
2. Any employee who has been forced to go on leave-without-pay status due to a family member's illness as covered or defined by the Family Medical Leave Act (FMLA).
3. Employee shall have a good attendance record—disciplinary action for abuse of leave may be a determining factor, as may be the number of times an employee is placed in leave-without-pay status over a certain period of time.
4. Employee shall have a good safety record—disciplinary action for incidents may be a determining factor, as may be number of incidents over a certain time period.
5. Employee shall satisfactorily complete any prerequisite courses or training.
6. Training shall be limited to that training applicable to employee's work unit.
7. Training of an individual shall not interfere with the overall production of the work unit.
8. Employee's length of service, experience, equipment operation proficiency, and production shall be considered when employee is being evaluated for possible advancement to the next level in conjunction with the complement system. The complement system will ensure that there is a correlation between the type of equipment used in an operation and the number of employees required for performance of work associated with the equipment.
9. Employee may complete only two equipment training courses per year unless approved by the division engineer.
10. Make sure there is or will be a need for a piece of equipment before training an employee to operate it.

## **CERTIFICATION PROGRAM**

Training is a key element, a foundation of this program. NCDOT is committed to providing an extensive training program for all its employees. However, the accessibility of training will depend on two elements: needs of the organization and the individual's motivation to learn new skills. Training is supported by comprehensive guidelines addressing many issues, including certification and recertification of skills, selection for training, and training documentation and information flow.

The SBP training program has been developed for all employees who occupy positions under the classification of Transportation Worker, as identified during the DOH Maintenance Personnel Classification Study. The training is documented on special forms; these forms serve to support an understanding between the employee and supervisor concerning the specific training to be provided and the milestone(s) to be achieved.

Employees may receive training by following one of the following tracks to satisfy part of the skill block requirements: these tracks are Outside Training, Equipment Training, and Non-equipment Training.

Some skill blocks require employees to receive training and certification outside the Department. For example, in order to work inmates, maintenance employees receive training from the Department of Corrections. Traffic Services employees may receive training from the International Municipal Signal Association (IMSA). Some Roadside Environmental employees receive a pesticide license from the North Carolina Department of Agriculture and Consumer Services. The American Crane Institute must certify bridge maintenance crane operators. Two of the three tracks, Equipment and Non-equipment, often require employees to train under a mentor or on-the-job-training instructor.

## **SBP PROCESS**

The SBP program utilizes four phases: course work, on-the-job training, certification, and compensation. Once employees enter on duty, they go through a process to identify the usable skills they are bringing to the Department. Once the employee completes a probationary period, he or she begins to participate in the SBP program by moving into the course work phase. During this phase, the following actions take place: supervisor and employee meet; skill blocks are identified; employee is assigned a self-study workbook for the appropriate skill block; employee takes a written test; and upon successfully passing the test, employee moves to phase II.

During phase II the employee is assigned to an on-the-job-training (OJT) instructor or mentor, who begins competency training and observes the employee for attainment of competencies. Once all competencies are mastered, employee moves to phase III (certification).

In phase III, a certified training coordinator checks the following: reports completed by the mentor, test grades, competencies, and skill block time requirements. This process documents employee progress toward satisfying specific requirements. Objective evaluation criteria and standards have been established for all training elements and components that require demonstration of appropriate skills. These criteria are used in the certification process to ensure fair and consistent treatment of all employees and to guarantee that all employees who satisfy a particular certification will possess the necessary skills and knowledge to carry out the related program work. When the certified training coordinator is satisfied, he or she signs appropriate documentation and submits appropriate forms to the personnel office.

The employee then enters phase IV (compensation). Compensation associated with this program occurs twice a year according to the performance appraisal cycle (i.e., around the middle of May and the first part of November).

## POTENTIAL USE OF SBP FOR MECHANICS

Skill-based pay programs appear to work well for trades-related occupations. This is thought to be because there is normally a clear delineation between levels of work—as well as because existing certification programs can be used in conjunction with SBP programs, and labor market data is readily available for determining skill block values. The NCDOT is considering expanding SBP to other occupational areas. Several managers have indicated a need for developing an SBP program for their mechanics. It has been several years since the classifications and salaries of mechanics have been reviewed. It also was suggested that the Department consider utilizing existing certification programs such as the National Institute for Automotive Service Excellence (ASE) in conjunction with SBP. Several other states currently have certification programs for mechanics in place. In fact, the Virginia Department of Transportation is piloting an equipment technician series SBP program. Most state classification systems already cover the main mechanic functional responsibilities (i.e., service, replacement, repair, and rebuilding of components). The current practice in the private sector appears to be classification of service personnel as technicians, rather than as mechanics. This seems to be more in line with today's highly sophisticated and technically oriented service work.

As technology is continuing to have impact on these jobs, especially in the area of electrical systems and accessories, diagnostic responsibilities have come to the forefront. There is also a good tie to the SBP program for maintenance employees who operate equipment (mechanics are usually expected to road test highway equipment once necessary repairs have been completed). The Department believes that the time necessary to implement an SBP program for mechanics would be much shorter. Many of the processes and procedures would be similar to those of the existing SBP program. This would ensure that all employees are treated equitably.

If an organization has a large number of senior-level employees at the top of their pay ranges, SBP may allow them to learn new skills and receive additional compensation in the form of bonuses or base pay adjustments. However, SBP also can lead to resistance among senior employees who do not have the ability or desire to learn new technologies or skills. In designing the SBP program for mechanics, management must assess the needs of the organization and analyze the current workforce skills available to meet those needs. These actions will allow management to determine the need for an SBP program and its design. Development of a skill-acquisition plan would be necessary in order that each employee could acquire the skills needed.

When skill blocks are priced, each skill block contained within a whole should reflect the value of that skill block, based on the best information available. In other words, there must be a way to index the skill block to the appropriate labor market. The following questions will need to be answered prior to embarking on a Mechanics SBP project:

1. Who will determine the necessary skill blocks and competencies?
2. Who will develop the requirements for skill blocks?

3. Who will develop the training and the certification initiatives? Who will participate?
4. What effect will training have on overall productivity?
5. Who will certify employees?
6. What types of automation will be necessary to support this program?
7. How can the organization ensure all employees are treated fairly and equitably?
8. Who will handle salary administration?
9. What groups are competing for the organization's labor resources?
10. Is there a way to collect and analyze salary information to ensure proper matches based on comparable responsibilities?
11. How will the new pay structure fit in with existing policies?
12. What implementation strategies will need to be completed?
13. What is the organization's ultimate goal?
14. How will program success be measured?
15. How much will the program cost?