

## **Introduction of Pay-for-learning Programs**

Pay-for-learning programs, also known as pay-for-knowledge, skill-based compensation, knowledge-based pay, or pay-for-skill programs can be defined as follows. Milkovich and Newman state, pay-for-learning structures “link pay to depth or breadth of the skills, abilities, and knowledge a person acquires that are relevant to the work. Structures based on skill pay individuals for all the skills for which they have been certified regardless of whether the work they are doing requires all or just a few of those particular skills.” Simply put, pay-for-learning programs compensate employees for knowledge and skills that they possess, not for the job in which they are performing.

Milkovich and Newman have evaluated the critical processes to determine a skill-based structure should include the following steps. An organization must make sure that their pay-for-learning structure is: 1) Internally aligned with work relationships within the organization, perform a 2) Skill analysis: a systematic process to identify and collect information about skills required to perform work in an organization, select 3) Skill blocks, 4) Skill certification, and, 5) Skill-based structure. Skill analysis decisions also include: what is the objective of the plan, what information should be collected, what methods should be used to determine and certify skills, who should be involved, and how useful are the results for pay purposes. Upon answering these questions in their respective order, it is important to remember that skill-based systems focus on inputs, not results. Their success is closely correlated with how well the plan is aligned with an organization's strategy. The information that is collected should be very specific information on every aspect of the production process. There are many different methods used to verify certification of skills, some companies use peer review, on-the-job

demonstrations, tests, and also completion of formal courses related to certain subject areas. The most important group of people that should be involved in building a skill-based structure, are the employees of an organization. Employee involvement is almost built into skill-based plans, as their opinion in all levels will ensure that they find the pay-for-learning system to be fair.

Skill-based pay systems can be found in some form in approximately 5 to 8 percent of U.S. corporations. They are usually applied to so called blue-collar work, most of these firms are in manufacturing and assembly work where the work can be specified and defined. The advantage of a skill-based plan is that people can be deployed in a way that better matches the flow of work, thus avoiding bottlenecks as well as idle hands. So far skill-based pay systems, particularly multi-skill-based systems, have been thought to be most successful and have been implemented with the greatest ease in new plants with a participative team management style. In a participative new plant environment, such systems fit the management style, reinforce employees for learning new skills, and implementation is easier because traditional attitudes about job ownership don't have to be overcome. In established plants, such systems are more difficult to implement precisely because of traditional views about job ownership but offer the possibility of breaking down such views and providing an incentive for veteran employees to learn new skills.

### **Using Pay-for-Learning Systems**

As stated before, pay-for-learning plans can focus on depth or breadth. In fact, there are two basic forms of skill-based pay systems, increased-knowledge-based systems and multi-skill-based systems.

Increased-knowledge or depth deals with specialists, such as: specialists in corporate law, finance, or welding and hydraulic maintenance. These are a few examples to help understand that specialists are likely paid based on their knowledge as measured by education level. Increased knowledge-based systems pay employees based upon the range of skills they possess in a single specialty or job classification. These are probably the most common skill-based pay systems and at their simplest are nothing more than technical skill ladders. For example, skilled trades often have a pay scale that increases as employees acquire additional skills and move from an entry to a journeyman level. Similar pay progressions based upon skill level can be found in universities, law offices, and research and development labs. Increased knowledge based systems are sometimes called "Vertical" systems because pay is tied to the depth of knowledge or skill in a defined job.

Multi-skill based systems or breadth deals with generalists with knowledge in all phases of operations including marketing, manufacturing, finance, and human resource. Employees in a multi-skill system earn pay increases by acquiring new knowledge, but the knowledge is specific to a range of related jobs. This means that pay increases come with certification of new skills, rather than with job assignments. Multi-skilled based systems are a newer, less common, and more revolutionary form of skill-based pay. In this case, pay progression is tied to the number of different jobs an employee can perform throughout the entire organization. For example, in a manufacturing environment, employees might be paid higher rates based upon their ability to perform jobs upstream and downstream from their normal assignment in the production process. Maximum pay rates would be paid to employees who can perform most or all jobs within the plant.

Because they tie pay to the number of different jobs a person can perform, Multi-skilled-based systems are sometimes called horizontal systems. These will enhance the benefits of greater labor flexibility and job mobility for employees.

### **Advantages of Pay-for-Learning Systems**

- Greater Flexibility
- Leaner Staff
- Improved Problem Solving
- Improved Horizontal Communication
- Improved Vertical Communication
- Supports Employment Security
- Improved Job Satisfaction

### **Limitations of Pay-for-learning**

- Increase in Labor Costs
- Increase in Training Costs
- Increased Administrative Costs
- Potential bureaucracy

### **Real World Use of Pay-for-Learning Systems**

There are well-known companies using pay-for-learning systems. AT&T, Corning, Ford Motor Company, General Mills, General Motors, Maxwell House, and Volvo to name a few. General Mills uses four skill “categories” corresponding to the steps in the production process: materials handling, mixing, filling, and packaging. Each skill category has three blocks: 1) entry level, 2) accomplished, and 3) advanced. An employee can start at entry level and after becoming certified on the skill needed for the next block, will be compensated for learning those skills. The employee can continue this process as allowed.

## Summary

In conclusion, the preceding graph will summarize what is important and necessary in a pay-for-learning system.

<b>What is valued</b>	Skill Blocks
<b>Quantify the value</b>	Skill Levels
<b>Mechanisms to translate into pay</b>	Certification and price skills in external market
<b>Pay structure</b>	Based on skills certified/market
<b>Pay increase</b>	Skill acquisition
<b>Managers focus</b>	1) Utilize skills efficiently 2) Provide training 3) Control costs via training, certification, and work assignments
<b>Employee focus</b>	Seek skills
<b>Procedures</b>	Skill analysis, and Skill certification
<b>Advantages</b>	Continuous learning, Flexibility, and Reduced work force
<b>Limitations</b>	Requires cost controls and Potential bureaucracy

## More information/Works Cited

Several resources are available on the topic of pay-for-learning programs. Here is a list to continue your inquiry:

1. Boyett, Joseph H., and Jimmie T. Boyett. 1998, "The Pay-for-Knowledge Design Workbook." <http://www.jboyett.com/excerpt2.htm>
2. Holley, William H., Kenneth M. Jennings, and Roger S. Wolters. The Labor Relations Process. Orlando: Harcourt, 2001.
3. H.R. Zone, 2000. "What to do about Skill Based Pay?"  
[http://www.hrzone.com/topics/skill\\_based\\_pay.html](http://www.hrzone.com/topics/skill_based_pay.html)
4. Milkovich, George T., and Jerry M. Newman. Compensation. New York: McGraw-Hill Irwin, 2002.