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2017 Deloitte Global Human Capital Trends

The organization of the future: The right job architecture can drive your transformation

It should be no surprise that the 21st-century workforce is dramatically changing as it becomes more global, digital, diverse, technologically-advanced, and social media proficient. As global forces are coming together to create disruptive change in how work gets done, business and HR leaders are re-thinking how they recruit, structure, develop, engage, reward, and retain top talent in the modern workplace.

To remain competitive in this contemporary landscape, companies may need to radically re-think how they operate and re-design human resource practices so they can "move faster, adapt more quickly, learn more rapidly, and embrace dynamic career demands from their people." [1]

Structured job hierarchies with defined roles, responsibilities, reward systems, and career paths may have supported business and HR needs in the past, however, with the emphasis on 'employee experience', the modern workforce is demanding greater mobility and flexibility in their careers, with more focus on team-based learning, and a greater breadth of opportunity within the organization.

High-performing companies have been able to address these evolving employee demands by examining and restructuring their company's job titles, reward programs, and career paths. As a result, many have benefited greatly by improving talent mobility, enhancing learning opportunities, increasing employee engagement, improving retention, and transforming company culture to be far more dynamic and collaborative than ever before.

What is a 'typical' job architecture?

The 'typical' structured job hierarchies of the past were developed based on rigid frameworks, with narrow pay grades and distinct roles / responsibilities for each job, and as such, generally lacked flexibility and discouraged mobility. Employees often perceive making lateral movements or moving between teams as having a negative impact on their career progression, which can inhibit learning and growth. Furthermore, it is often challenging to differentiate and reward the highest

[1] 2017 Deloitte Global Human Capital Trends; The organization of the future https://www2.deloitte.com/us/en/pages/human-capital/articles/introduction-human-capital-trends.html

performers in a meaningful way (outside the general merit / inflation pay increase) in hierarchical structures. Employees tend to perceive promotion to the next 'level' in the defined career path as 'differentiation', which further prevents lateral mobility, and can have the unintended consequence of distorting the performance management process.

As companies face these talent and reward challenges, they may realize their job architecture frameworks are complex, outdated, inconsistently used across the organization, and have inadequate governance to manage job classification and salary grading. While the hierarchical approach may continue to be the most appropriate framework in industries where the need for specialization outweighs the need for mobility, these legacy practices may be preventing your company from "pushing toward a more flexible, team-centric model" [1] —so often the hallmark of modern, high-performing companies.

What can we do about it?

If the impediment to a high-performing, dynamic, and collaborative employee experience is a rigid, hierarchical job architecture, then why not remove the impediment?

Implementing a flatter, more team-oriented job architecture by reducing the number of levels, titles, and pay grades in the organization, and introducing fewer, wider 'broad pay bands' can completely transform the employee experience. It offers the company the ability to deploy resources in a more project-based manner around the organization without dramatically impacting pay, and engenders employee engagement through greater breadth of experience and improved learning opportunities—all without the typical negative connotations often associated with lateral movements.

By shifting the emphasis of HR from control and structure to more creative and entrepreneurial ways of working, companies can promote a flexible and team-oriented culture that is aligned with *the organization of the future.* [2]

What does this 'flat' pay structure look like?

Such pay structures are characterized by a series of relatively few, wider salary bands. This approach is inherently 'flatter' than a more traditional hierarchical pay structure as it typically encompasses just 8—10 bands, compared to 20+ under the more traditional approach.

Broadbands provide less formal structure and typically have range spreads of 80% to 200% with no defined midpoints. Broadbands allow for broader workforce skills, easier movement between assignments, and career development among employees as they reduce grade distinctions between jobs. Additionally, the need to distinguish between jobs with prescriptive titles and accompanying job descriptions and pay administration, such as job evaluations, salary structures maintenance, and merit pay increases, is reduced, thereby creating far greater flexibility for both the employee and employer.

However, if a company is not quite ready to move from a traditional pay structure to broadbands, they could consider phasing in a broader "modified" market-based structure (typically with pay range spreads of 40% to 80% and midpoint progressions of 10% to 20%), which falls somewhere between traditional and broadband structures. Market-based structures are often characterized by range spreads wide enough to encompass the market 25th, 50th, and 75th, while still providing a level of control over unreasonable pay rates.

[2] For information on Deloitte's Agile Transformation Approach, visit https://www2.deloitte.com/content/dam/Deloitte/global/Documents/About-Deloitte/gx-about-deloitte-agile-deloitte-agile-transformation-approach.pdf

How can we reward employees in this structure?

A flatter job structure with fewer, wider pay bands provides the company with far greater flexibility to reward its employees. Removing the hierarchy of the traditional job architecture means replacing the often unwieldy, restrictive, and narrow job / level-specific pay grades, with fewer, broader bands that encompass market rates and critical skills for all jobs in the band. This additional flexibility helps companies to advocate a true 'pay-for-performance' philosophy, by differentiating and rewarding the highest performers based purely on their performance, rather than on the narrow market range associated with a given job title. The emphasis shifts from internal equity, market data, and 'promotions for progression', to flexibility, learning and 'performance for progression'. Furthermore, movement from one grade to another in a flatter structure typically reflects a more meaningful career progression due to the reduced number of grades.

To be able to get the most out of this flatter structure, not only should employees at all levels reinforce and empower employees to make lateral moves, take risks, and broaden skill-sets, but it should be supported by robust performance management.

Rather than annual reviews based on narrow goals closely correlated to specific job titles, identifying the highest performers involves regular touch-points between employees and managers, including quality conversations that are focused on actual performance and development needs (rather than abstract year-end 'ratings'), and defining what great performance looks like. Employees should be assessed and rewarded based on the impact and breadth of their contributions to the company, and on pre-defined core competencies associated with each level / band. The focus shifts to rewarding employees for their skills, abilities, and contributions, and away from their position title and the corresponding 'market rate'.

While salary administration time and expense can be expected to dramatically decrease (since there will be less focus on job evaluations and grade placement), using fewer, broader bands does demand strong governance to control compensation costs, and greater discipline among managers to ensure differentiation within the band reflects performance, contribution, and impact.

Is a flat structure right for your organization?

Broadbands may not be appropriate for all organizations, and there remain significant advantages associated with the more traditional, hierarchical organization structure—particularly at companies where there is a premium placed on control over flexibility.

Flatter structures typically appeal to organizations in a dynamic, fast-moving environment, and it is increasingly clear there is a demand from both employers and employees for a more mobile and transient workplace. Companies must be able to react to these demands in order to compete effectively in today's competitive global talent market, and as such should re-think how their approach to job architecture—the organization of the future—looks increasingly flat.

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