Subject: Human Resource Management

Production of Courseware

- Content for Post Graduate Courses

Paper   10 Contemporary Issues in HRM & Future Trends
Module 03 Competency Based HRM

Development Team

Principal Investigator:	Prof. Ipshita Bansal, Department of Management Studies, BPSMV, Khanpur Kalan, Sonepat
Paper Coordinator:	Dr. Rashmi Sharma, Lal Bahadur Shastri Institrute of Management, Delhi
Content Writer:	Dr. Rashmi Sharma, Lal Bahadur Shastri Institrute of Management, Delhi
Content Reviewer:	Prof. Anil Mehta, Head, Department of Business Administration, University of Rajasthan, Jaipur

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Module 3:Competency Based HRM

1. **LEARNING OUTCOMES:**

After completing this module the students will be able to:
- Understand the benefits and challenges of a competency based structure
- Implement a sound reward system in the organization on the basis of a competency based structure.

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2.Introduction

Competency-based human resources planning serves as a link between human resources management and the overall strategic plan of an organization. Competencies are defined as observable abilities, skills, knowledge, motivations or traits defined in terms of the behaviours needed for successful job performance.

Competency based approach refers to the Human resource management model which addresses job performance. This approach fosters increased training, skill building, job satisfaction and other measurements and leads to improved hiring practices.

The word `Competent' refers to the characteristic of an entity that has the wherewithal to carry out the requirements of a job, task, or undertaking.

In a competency-based system, both the employer and the employee benefit. This is a result of establishing a transparent blueprint for recruitment, job expectations, performance evaluation, and advancement paths. Personal judgment and subjectivity are minimized, creating a more positive work environment and a stronger relationship between employee and employer.

3.Benefits of a Competency-Based System for Employers& Employees

A competency based system ensures the following for an employer:
- organization-funded training and professional development activities are cost-effective, goal-oriented and productive
- Enables employees to achieve a high level of competence in an efficient manner
- Records the employee's acquisition of the skills, knowledge, safety and other procedures relating to each task
- Reduces cost overruns caused by poor performance or miscommunication of job expectations
- Improves communication between employee and management
- Increases internal employee mobility, providing the organization with greater ability scale and flex as needed
- Establishes a framework for constructive feedback by management at scheduled training and performance appraisal intervals
- Clarifies job standards for performance appraisals
- Outlines employee development and promotional paths within the organization

Benefits of a Competency-Based System for Employees

- Sets clear performance expectations for employees, enabling them to make better decisions and work more effectively
- Gives employees insight into the overall strategy of their team, department, and organization, leading to greater engagement and motivation
- Enables employees to be more proactive beyond their individual roles, by learning additional competencies that are valued by the organization
- Provides clear direction for learning new job skills
- Offers a reference resource for day-to-day requirements
- Increases the potential for job satisfaction
- Provides a mechanism for the recognition of employees' abilities
- Ensures that individual professional development and training milestones are recorded and acknowledged by the organization

One rule we have here: Practice what you preach!
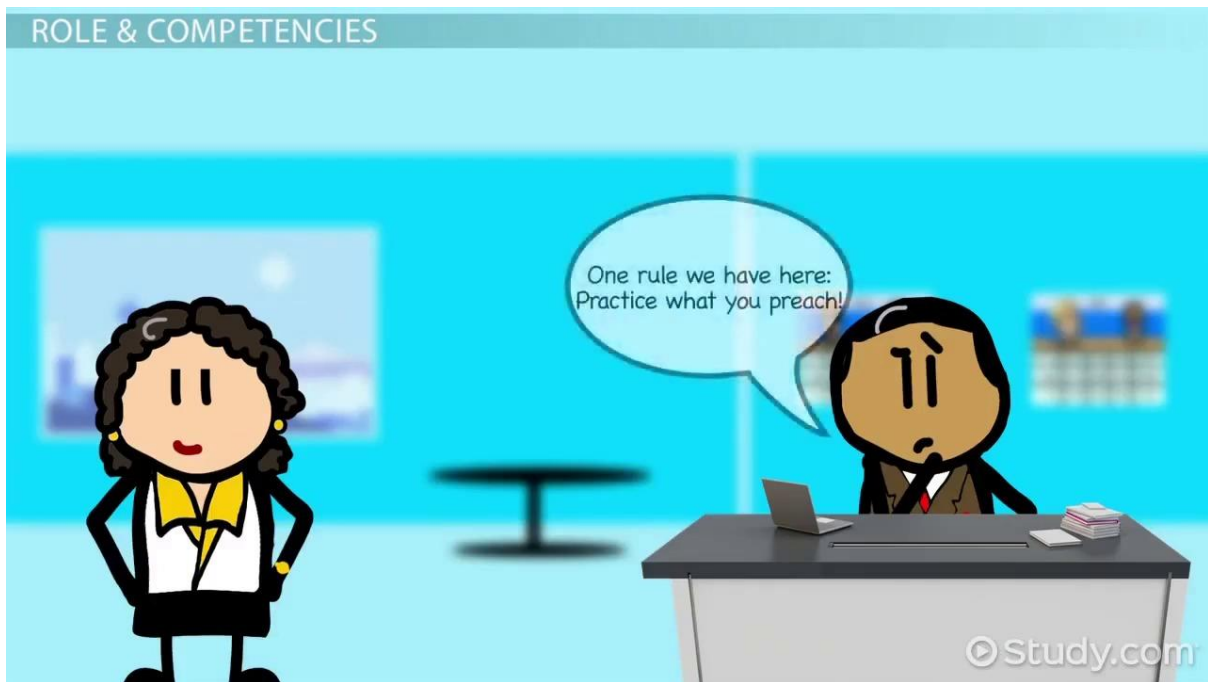
4.Steps to developing a competency framework

The following steps are to be followed to develop a competency framework:

1. What are the objectives of the competency framework?

As with any HR project, start out by clarifying why you want to have a competency framework – what business issues are you trying to solve? Is a competency framework really the best solution? To develop and implement a competency framework will take significant time and effort so you need to be clear about what you want it to achieve. Additionally, define the success criteria for the project so you can measure the effectiveness of the framework once it has been implemented.

2. How will it be used?

Competency frameworks can be used as a tool to support a number of people processes such as recruitment and selection, performance management and career planning. Before starting work on the framework development, be clear about how you wish to use competencies within your organisation as this will determine how the framework is structured. Plan your timetable for rolling out the framework – we recommend a gradual rollout, applying it to one people process at a time. Ideally, start with the process that will bring you a 'quick win' and that will have the least resistance.

3. Define the format, scope and structure

Do you want the framework to contain just behaviours, or also to include skill and knowledge requirements? Should it cover all roles and functions within the organisation, or will it apply to a particular group of employees? Will it cover all levels, or exclude groups such as senior management? What will the end structure look like – will it just show positive examples of competencies or do you want it also include negative examples?

Think about how you want to group the examples of each competency. Some organisations like to group them into hierarchical levels (our recommended approach) which may or may not relate to grades within the organisation. Others prefer to categorise them into named groups such as 'Essential', 'Effective' and 'Outstanding' Performance.

4. Establish your project team

First decide whether you will develop the framework using entirely in-house resources or whether you will need external assistance. Collecting, defining and assembling behaviour examples require particular skills and expertise which may not always be present within the organisation. When building your project team, try to include key stakeholders that will endorse and champion the final framework within the organisation.

5. Plan your communication

Before you commence the development of the framework, it is essential to plan and execute your initial communication. People within the organisation need to know that the project is taking place, understand what its purpose is, its benefits and how the final competency framework will be used. If this is not clearly communicated up front, suspicion is likely to be aroused when employees are being interviewed during the data gathering stage.

6. Gather the competency data

The objective here is to gather specific examples the competencies / behaviours that lead to effective performance within the organisation. There are various techniques that can be employed for this such as undertaking detailed behavioural or critical incidence interviews. The data should be collected from a selection of employees across all the functions and levels that are within the scope of the framework. It can be helpful to include people who are influential within the organisation and who may not necessarily be supportive of the project – by engaging them in the development process, you are more likely to obtain their support when then framework is rolled out.

7. Assemble the draft framework

The competency / behaviour examples that you have collected will need to be categorised into competency groups or 'clusters' and then sub-divided into levels or other groupings according to your desired framework structure. This is best done via facilitated workshops with the project team. During this process, you should hone the competency / behaviour examples to remove any duplication and re-write any that are vague or unclear.

8. Gather feedback

It is essential that you gather feedback on the draft framework from across the organisation. Participants should identify any competency examples that are duplicated, vague, in the wrong group or level, not relevant to them or that they simply do not understand. Again, it is useful to involve key influencers within the organisation in this process to help to engage them and gain their buy-in to the project.

9. Test your framework

Your framework is now ready for testing and there are various ways in which this can be done. One of the simplest and effective methods is to select a number of employees with varying levels of performance and assess them against the competency framework. For each employee, compare their competency evaluation to their recent performance appraisals / assessments. Higher performing employees should, in most cases, display a higher level of competencies than the lesser performing employees. If this is not the case, then the framework may need to be re-worked.

10. Prepare for rollout

You now have a fully developed and tested competency framework! However, the competency framework will only be effective if it is used effectively. Therefore you will need to ensure that everyone who will be using the framework is fully trained and briefed and given the necessary supporting materials and documentation. Where possible, it is best to pilot it in one area of the company to iron out any potential issues and to hone the training and supporting materials. Finally, before you move into implementation, decide on your process for reviewing and updating the competency framework on an ongoing basis and assign responsibilities.

5. Understanding the Competency Based Structure

Some important questions to ask such as:

- Can Competencies be learned or developed?
- Are they a trait that is more difficult to learn?
- Do Competencies focus on the minimum requirements that the org. needs?
- Do they focus on outstanding performances?

- Are they characteristics of the organisation or of the employee?

Defining Competencies
- Skills – demonstration of expertise
- Knowledge – Accumulated information
- Self-Concepts – Attitudes, values, self-image
- Traits – General Disposition to behave in a certain way
- Motives – thoughts that drive behaviours

The Top 20 Competencies
- Achievement Orientation   * Info. Seeking
- Concern of Quality   * Analytical thinking
- Initiative   * Conceptual thinking
- Interpersonal Understanding   * Self-Control
- Customer Service Orientation   * Self-confidence
- Influence and Impact   * Business Orientation
- Organisation awareness   * Flexibility
- Networking
- Directiveness
- Teamwork & cooperation
- Developing others
- Team Leadership
- Technical Expertise

"The main requirements for this job are the ability to live without money, skilled at mind numbing work & getting along with disgruntled coworkers."

Designing a Competency Based Structure:
Look at the organisation as opposed to Job based and skill based structure.
- Core Competencies – linked to the mission statement; abstract the broadly applicable knowledge, skills and behaviours.

- Competency sets – helps to translate each core competency into action
- Competency Indicators – Observable behaviours that indicate the level of competency within each set.

What Information to Collect?
- Personal Characteristics- Ex. Trustworthy, loyal
- Visionary – highest level competencies
- Organisation Specific – function specific Ex. Leadership, customer orientation, functional expertise.

Whom To Involve?
- Not everyone understands.
- Some feel it's useful only for career development and not compensation

Establish Certification Methods
- Can all competencies be used all the time?
- Assumptions are not clear
- Competency indicators become obsolete as strategies shift
- Difficult to certify objectively whether a person possesses a competency

Research on Competencies
- Debate on whether competencies can be translated into a measurable, objective basis for pay.
- Competencies are enhanced by the extent to which people throughout the organisations are business driven and values driven.

Organisations with Competency based HRM:
- Deals with intellectual capital and knowledge management
- Typical business benefits of an effective competency framework
- There is a common language for describing effectiveness across all parts of the organisation
- Managers have the vocabulary and examples to discuss performance with their employees in a specific and factual manner
- There is greater consistency and objectivity in the assessment of performance
- A reduction in recruitment and selection mistakes
- Employees can identify and plan their personal development needs in order to support progression into other roles within the organization

"WHAT'S THE MINIMAL LEVEL OF COMPETENCE AROUND HERE?"

6.Challenges of Competencies

Many of today's organizations can be characterized as distributed, and global, with functions that often operate autonomously in the absence of governance. These factors make efficient and effective identification, utilization, and implementation of competencies difficult. In fact, 69 percent of organizations surveyed said their competency management was only somewhat, or not at all, effective. Interviews and focus groups with executives and other business and HR leaders exposed six competency challenges prevalent in many organizations.

Competency management is treated as an HR process, rather than a business imperative. On average, 88 percent of organizations identified better leader and employee performance as important or critical to the business. When asked about the single most important call to action to improve performance, interviewees said, "Tell employees what is expected of them to excel." Performance excellence, then, means clear communication of the competencies for which an employee is accountable. But in the State of Leadership Development Study that was conducted in 2015, 31 percent of organizations said they had not defined their critical leader competencies, much less any of the others (core, functional, or career). Until competency management is revered as the business imperative it is, performance will continue to languish.

Identification of critical competencies is difficult. Without an assessment strategy (15 percent) and the ability to predict the skills needed by the business going forward, organizations are left clueless as to what skills exist and are needed. Some 74 percent of organizations say that definition of essential competencies by talent segment and job role is critical, or important, to the business. Yet, a stark .7 percent of organizations have the means to predict the essential skills required.

Alignment of competency development with business goals is weak. Some 61 percent of organizations have only somewhat effectively, or not at all, identified critical talent segments and key job roles. Hence, it goes without saying that most have yet to define critical job responsibilities and success criteria. In the absence of these competency procedures, it is no surprise that 72

percent of organizations indicate that employee and leader skill building is only somewhat, or not at all, focused on developing competencies requisite for achieving business goals.

Investment in competency management is deprioritized. For the first time ever, an organization's people strategy supersedes the organization's business strategy, in regard to its importance in meeting business goals.

It is difficult to find a single people strategy that doesn't include a competency strategy. Yet when asked about financial investment, competency management has been on the decline and well behind many other talent processes. In 2014, only 9 percent of talent management budgets were allocated to competency management. In 2016, that number dropped another five points, putting competency management in a tie for fourth to last place.

Competency models are exclusive of technical competencies. Too often organizations exclude technical skills from the functional portion of their competency model. Technical skills are prevalent among many critical job roles including engineers, IT specialists, medical professionals, and others. However, in many organizations, their competency models are, unfortunately, void of technical competencies.

Competencies are too often paper-based. In Brandon Hall Group's 2015 State of Performance Management Study, 30 percent of organizations said their primary tool for managing performance is paper-based spreadsheets. Without an automated competency model, leadership is challenged to accurately assess employee performance and focus on developing strengths and closing skill gaps. Automating competency management, among other things, provides a means to create a standard approach to competency management across the enterprise and provide for integration of competencies among all talent processes.

Benefits of Competencies
Effective and automated competency management creates a real-time and predictive inventory of the capability of any workforce. By defining and automating job roles and associated competency proficiency, leadership can readily identify strengths and skill gaps. Competency management then informs targeted skills development learning solutions improving individual and organizational performance, leading to better business results.

High-performance organizations describe the following benefits of effective and automated competency management:

Enriched understanding of expected behaviors and performance. Of course, the quickest path to improving performance starts by knowing the target performance. Organizations that take the time to define the short list of competencies and expected proficiency level for each competency, by job role, essential for the achievement of business goals, have taken the first step toward giving employees and leaders the best shot at performance excellence.

Improved talent planning. Competency assessment results inform leadership about current and future talent capability. To be assessed as competent, the employee must demonstrate the ability and experience to perform a job's specific tasks. Data and analytics about employees' skills and knowledge are essential for performance risk mitigation that leadership would otherwise be blind to.

Optimized development and mobility strategy. High-performance organizations realize that organizational success depends on how capable their people are. They also recognize that formal training does not necessarily equip employees with the appropriate skills to thrive in the workplace. This is where competency management and competency-based development comes in.

Competency-based development is created around the competency standards that have been identified for a specific role in an organization.

Enhanced talent pipeline. Automated competency management enables on-demand information about employees' and leaders' competency mastery and readiness to move into next-level or other critical roles. In this fashion, organizations are better prepared with development planning and, as a result, yield healthier talent pipelines regardless of business cycle or economic conditions.

Improved operational efficiencies. Competency management automation facilitates business-driven learning and development, eliminates non-value-add training, highlights strengths to be further developed, flags critical skill gaps for mitigation, and generates higher levels of employee and leader satisfaction with their overall experience with the organization.

Integrated talent processes. Serving as the standard for expected performance by job role, competency management becomes the standard by which the highest-performing organizations talk about and manage all phases of the employee lifecycle: from talent acquisition to development, to retention and reward.

7.The Advantages and Challenges of Competency-Based Employee Rewards

There are numerous advantages to using a competency-based employee reward process.

Competency-based employee rewards offer major support to other competency-based HR management practices. The approach **serves as a mechanism for raising the performance bar** in a fair and equitable manner, specifies clear performance requirements and the rewards for achieving them, and can easily be aligned with a competency-based performance system.

It is highly desirable to encourage everyone to perform at the level of exemplars, but since not all competencies can be developed and instead some must be acquired through selection, the goal of this approach is to **raise the productivity** of existing staff closer to the level of exemplars.

The **unified communication strategy**, which keeps employees informed of the conditions for rewarding exemplary performance, acts as an informal performance contract between the organization and its employees and encourages participation in setting higher performance standards. Under a competency-based system, employees are rewarded for achieving results in productive ways rather than simply for carrying out work activity. Job candidates who are highly motivated to do exemplary work will view this type of reward process as an employment incentive.

A competency-based approach **improves an organization's bench strength**. It stimulates employee development. Ultimately, clients or customers who receive exemplary-quality outputs will be more satisfied with the organization's products or services.

At the same time, a competency-based reward process also presents challenges like:
The development, implementation, and maintenance of a competency-based approach demand significant commitment of organizational resources. The business benefits to be derived from a highly structured process such as the one proposed here must be weighed against the long-term investments required.

Rewards must be allocated or matched to measurable results. Organizations with secretive or untrusting corporate cultures will probably not be able to apply standards in such a way. The reason is that measurable results must be clarified and communicated to employees.

Performance requirements, competency acquisition and assessment plans, and decision-making guidelines and practices must be specified and consistently applied to employee reward decisions. An organization cannot accomplish this without first identifying and validating competencies and developing measurable specifications for the work outputs or results. The necessary technical resources must be available, sourced either internally or externally, to complete this work and maintain its accuracy as rewards are administered. Without this capability, the organization cannot operate a competency-based employee reward system.

Monetary employee rewards should be funded well before rewards are given. The organization must be able to incorporate these costs into its existing budget.

"This really is an innovative approach, but I'm afraid we can't consider it. It's never been done before."

8.Summary

In this module we have learnt the concept of competency and competency based system. The steps in designing the competency based structure were also elaborated in the module. The advantages and disadvantages of competency based HRM was also discussed.

The key learning from the module have been that a successful competency-based approach requires senior managers who understand that competencies are a prerequisite for all performance and who are willing to embrace an innovative system for rewarding exemplary employee

performance. In addition, they must be prepared to commit resources to designing, establishing, implementing, and maintaining the process even as organizational circumstances change.

A traditional process is advisable when senior managers are not interested in exploring a competency-based reward process or cannot articulate the business case for using competencies. In certain organizations, senior managers may be unable to justify the expenditure of resources because of their company's size or corporate culture or for financial reasons.