

## Competency-Based Systems

by Dr. Stephen C. Schoonover  
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### A Need for Change<sup>1</sup>

ARLO<sup>1</sup> Corporation, a global manufacturing company, was undergoing radical change. A re-engineering effort had led to a smaller, streamlined organization and ARLO was reorganizing how work was done throughout the organization.

And while everyone understood how the competitive environment required new ways of working and thinking, no one could have predicted how hard the transition was going to be. Employees were demoralized by an increased workload and frightened at the prospect of losing their jobs. To make matters worse, many employees lacked the mindset, skills and knowledge needed to succeed in this new work setting.

At an annual strategy meeting, the CEO noted that “We need to be the industry leaders, not followers. We’ve made an excellent start by addressing strategy, structure, and process issues, but will need a transformation of our work force if we are to win in the marketplace. This means that each of us must change how we behave. To prosper as an enterprise, we must all operate from a set of core values and meet even higher performance standards than ever before.”

<sup>1</sup> ARLO is a fictitious company that nonetheless represents a composite of our experience over several competency assignments.



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Though the CEO's rallying cry was well received, finding a way to change the behavior of an entire work force proved more problematic. Middle management — already reeling from staff cutbacks — felt they would just have to work harder. Front-line workers adopted a "wait-and-see" stance, assuming this was just the latest fad that would pass with time.

The CEO, surprised at employees' resistance to change, issued a challenge to the VP of Human Resources. The CEO wanted HR to find an effective way to "raise the bar for performance, accelerate the development of leaders, and ensure employees can implement our new work processes and become drivers of continuous innovation and change."

Sound familiar? More and more, organizations today are searching for ways to:

- clarify new standards and expectations
- better align individual behavior and business strategies, and
- help employees take charge of their own development.

Increasingly, companies like ARLO are deciding

to use competencies as the engine for team and individual change.

This booklet provides an overview of state-of-the-art practices in the area of competency-based human resources systems. Through a balanced discussion of the issues, we address topics such as:

- What are competencies?
- Why develop a competency-based system?
- How is such a system developed?
- What is meant by "Integrated Human Resource Systems?"
- How does performance management work under a competency-based system?
- How does such a system influence pay?
- What are the expectations for the future?

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### What Are Competencies, and Why Are They Important?

While competencies have become a mainstream concept, there is much confusion about how to define them. Current definitions run the gamut from the key capabilities of an *entire* organization to job knowledge or technical performance criteria. Among most professionals in the field, however, the basic definition of competencies has remained relatively unchanged for the past 25 years:

*Competencies are those behaviors that excellent performers exhibit much more consistently than average performers.*

In defining what competencies are, it is also important to understand what competencies are not. Competencies are *not* a psychological construct. For example, there is no single behavior that could be termed “Customer Responsiveness.” The competency called “Customer Responsiveness” is a grouping of behaviors that, taken together, describe how an employee demonstrates customer responsiveness through *behavior on the job*.

Competencies, therefore, are a collection of observable behavior statements that require

*no inference, assumption or interpretation.* The statements -- typically referred to as “behavioral indicators” -- are grouped according to a central message or theme, which becomes the title of the competency and is captured in the definition.

Most competencies are presented in the form of a model, or grouping of several other competencies merging to represent excellence in a particular work context. Figure 1 presents an example of a competency for “Customer Responsiveness”. See Figure 1.

For many organizations, competencies typically exclude “baseline” behaviors — those behaviors that are common to average *and* excellent performers. The overriding reason for excluding baseline behaviors is to maintain a focus on excellence. Most organizations utilizing competency-based human resource systems are trying to drive excellent — not average — performance. Thus identifying “baseline” behaviors runs the risk of encouraging average performance or, at a minimum, wasting development time on behaviors that most members of the work force are *already* exhibiting.

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### Figure 1: Customer Responsiveness

Definition:

**Demonstrates consistent focused actions to ensure high levels of customer satisfaction.**

- Asks questions to clarify customer requirements.
- Takes a variety of actions to meet customers' needs as required until needs are met.
- Responds to customers with an appropriate level of urgency.
- Builds confidence in customers that their needs are given the highest priority.

Competencies are important because they enable us to provide employees with a roadmap of the kinds of behaviors that will result in excellent performance. How employees do their jobs now represents the competitive edge for organizations in all industries. Excellent customer service and total quality performance can happen only when attention is paid to how employees carry out their tasks. When we know the competencies required for excellent performance in a job or role, we can select and develop employees to perform at that level. And when we have employees performing at an optimum level, we can maximize the overall performance of the organization.

### Why the Interest in Competencies?

Contrary to the perceptions of many human resource professionals, competencies are not a new concept. Competency-based human resource practices have been in use for decades, but principally as assessment and development tools. Only in the recent past have competencies emerged as a *broad-based* human resource tool for many organizations.

It's not hard to understand why. Our experience and discussions with other organizations indicate competencies are viewed by many as the *answer to a problem* – how to effectively manage and motivate

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employees in a new work environment characterized by:

- greater focus on integration and improvement of work processes
- increased demands on people to acquire and demonstrate new behaviors and skills
- a reduction in the number of traditional jobs and the elimination of career paths and ladders
- an increased focus on teamwork and team performance
- a focus on the organization's people as the source of competitive advantage.

Organizations report that the competency-based systems they have put in place have:

*Raised the performance bar.* Because competencies are based on the behaviors that distinguish excellent performers, the goals set for individuals are higher than before. This increases everyone's performance level.

*Helped align individual behavior with business strategies.* Organizations that are relentless in linking their competency models to the organization's strategic values report that individuals' actual behaviors are better aligned

with these values. Just as important, individuals see this linkage.

*Provided a new employer-employee contract.* Gone are the days when employees are promised job security and fair pay in exchange for loyalty and a fair day's work. Many organizations are looking to replace this old contract with a new one – one in which the organization provides individuals with the opportunity to develop and use new skills and knowledge in exchange for their loyalty and labor. For these organizations, competency-based human resource systems provide a vehicle for assessing needs and developing the necessary competencies.

*Changed the Measure of Success.* For organizations looking to de-emphasize "ladder-climbing" and title acquisition, competencies have introduced a new way to measure success. While broadbanding tends to de-emphasize titles and levels, it fails to offer a replacement for them. Competencies can provide a substitute measure or indicator of an individual's growth and performance success.

*Provided a spark for creating and sustaining*

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*a culture of learning.* Many organizations believe that competencies enable them to develop and sustain a culture where people want to learn and develop. Competencies can help clearly identify a roadmap for success, provide tools for self-development, and reward employees when they acquire and demonstrate the mastery of relevant competencies.

At this point, additional experience and research are required before we can say with certainty that competency-based systems are fulfilling their promise. However, initial reaction to the implementation of such

### Competency Models

In general, most organizations frame their competencies around discrete models. Models are groups of behaviors bounded by a defined work setting (e.g., job, role, function) and organized according to themes or topics (called competencies) to make understanding and assessment easier. The nature of models varies depending on whether the organization is defining success for :

- the overall company (i.e., the business

strategy and/or desired corporate culture);

- a specific function (e.g., human resources, finance, sales, etc.)
- a given role, career level (e.g., strategist, integrator, team leader, or individual contributor)
- a specific job.

Figure 2 illustrates a typical competency framework for an organization.

A number of factors influence which model an organization chooses to use. Factors include how the competencies will be applied and the resources the organization has for developing and using them.

In general, the more specific the model, the more powerful it can be for focusing and developing people. However, highly specific models are also more costly to develop and maintain. Often, organizations create a core and leadership model to communicate the organization's mission, vision, and values, and to ensure total organizational alignment.

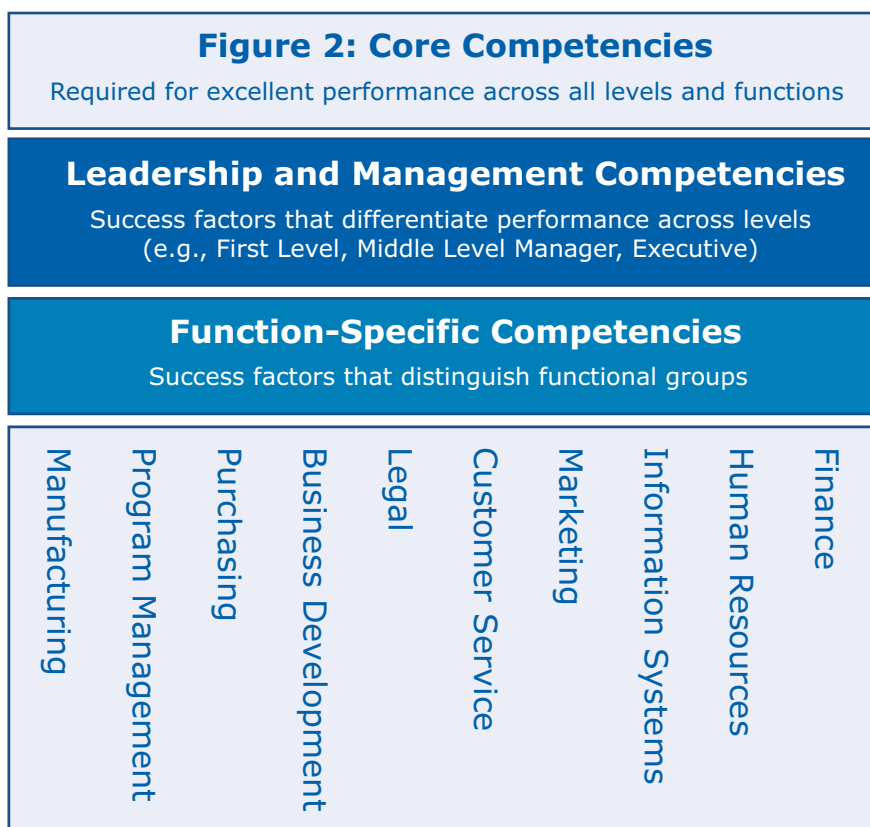
To provide for more powerful performance development, organizations often create functional or role-based models in highly leveragable areas. Few organizations develop

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models for all jobs or levels and functions.  
Whatever the nature of the model or models  
developed by an organization, most

organizations place a premium on brevity.  
They typically emphasize the five to 10 most  
important competencies for each model.



### Developing Competency Models

Regardless of the competency model being  
created, the development process is generally  
the same. Figure 3 outlines the model-  
building process.

Step 1 - It all begins with clarification of the  
business strategy, short- and long-term  
competitive challenges, and the desired culture  
for the organization. At this point, it is

particularly important to specify how the  
competency model will be used (e.g., in  
selection, performance management, career  
development, training, etc.). One must also  
identify and plan for the parameters that the  
model and its applications will need to meet.  
These may include EEO guidelines (especially  
for selection and performance appraisal),  
meeting the requirements of the Joint

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Commission on the Accreditation of Healthcare Organizations (especially for competency-based performance appraisals and job descriptions), etc.

Step 2 - There are a variety of alternatives available for gathering the data necessary to build a model. These options are described in the next section.

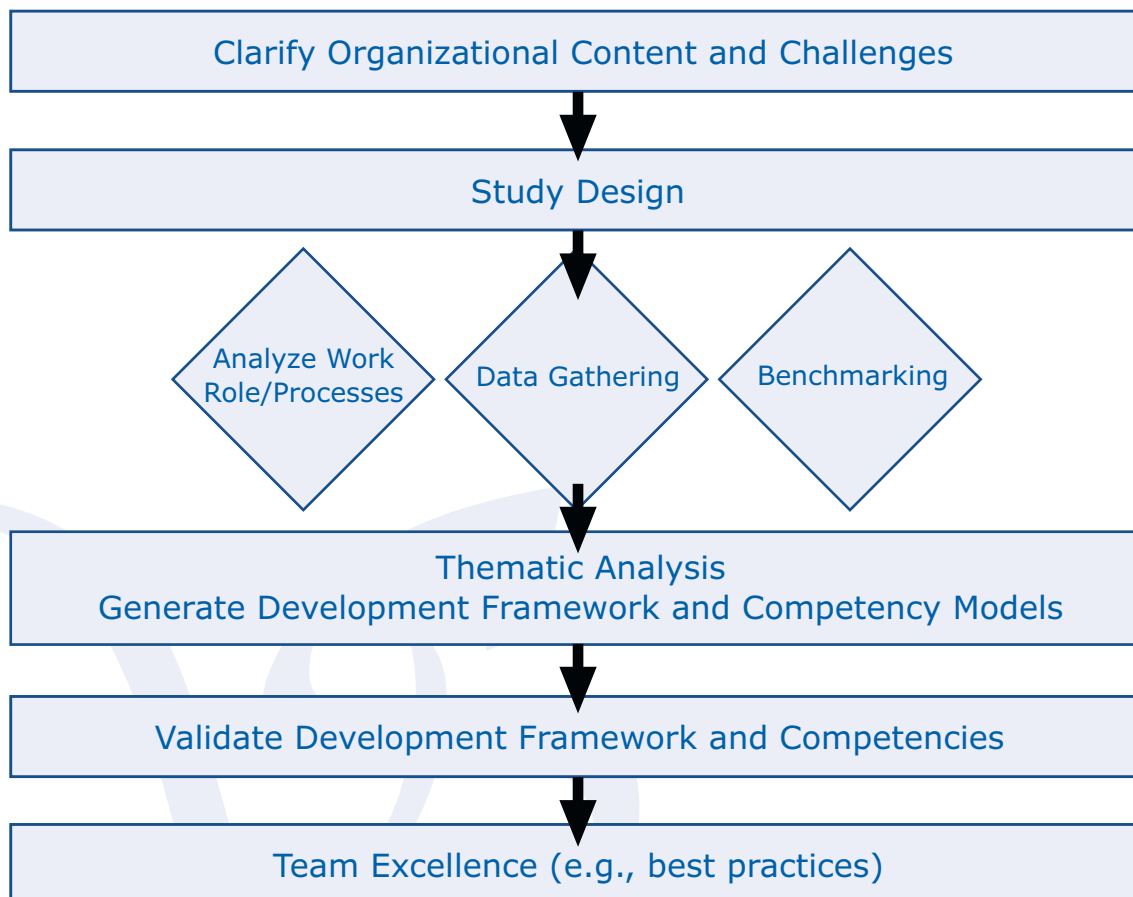
Step 3 - Once the data is gathered, it is integrated into the behavioral indicators that

specifically describe excellent performance for the company, function, role or job. This becomes the "Competency Model".

Step 4 - The final step is to bring the competency model back to the stakeholders or "customers" of the model for final validation.

This step ensures there is appropriate "buy-in" for the model as a description of excellent performance in the organization.

**Figure 3: Competency Modeling Process**





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## Gathering Data for Models

The primary difference in how the model-building process is executed lies in how data about success factors is gathered. In general, there are five distinct approaches to gathering data. They vary by:

- their efficiency — the resources required to build the model
- buy-in — the broadbased acceptance achieved
- validity — the degree to which the models reflect behaviors actually demonstrated by exceptional performers in the organization.

Each of these approaches is described below.

**Behavioral Event Interviews.** This is the approach most frequently associated with building competency models. It generally involves interviewing excellent performers (and sometimes a matched group of average performers) and soliciting success stories from each. The goal of these interviews is to identify those behaviors that were critical to attaining a successful outcome. By interviewing a large-enough sample of successful performers and comparing their success stories to individuals who are less

successful, one can identify key themes and groups of behaviors that support excellent performance.

## Other Individual Interview Techniques.

In some instances, eliciting specific behavioral events from top performers requires too many resources to make it worthwhile. In other situations, the pace of change in an organization makes “past success” of limited relevance to defining current or future success factors. In these situations, organizations often use key management or stakeholder interviews to get input on successful behavior. Another alternative is to conduct benchmarking interviews with representatives from selected competitors or companies with proven success in confronting similar work challenges.

**Focus Groups.** Another, and less-involved, approach is the use of focus groups. With this approach, individuals who know a job, function, or the organization are asked to identify competencies that are common among successful performers (and perhaps average performers) or to outline critical incidents or events where successful performance was exhibited. Focus groups provide for broader organizational input than interviews, and can

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focus more effectively on future-oriented success factors.

**Surveys.** Another alternative is to query stakeholders or other knowledgeable individuals with a written survey. A list of behaviors (in a sample model) is distributed with instructions. Respondents indicate the degree to which they believe each behavior distinguishes excellent performance within the organization. They may also make any revisions to the model they think appropriate.

**Expert Databases.** A final approach is to

use expert knowledge from previously developed models. By indicating the job and/or performance expected, organizations can now access databases and identify competencies demonstrated as important in other organizations with similar work environments.

In practice, few organizations rely solely on one approach. Most organizations use a combination of approaches to strike the proper balance of validity, efficiency, and buy-in.

Figure 4 rates each of the five basic approaches against these criteria.

**Figure 4: Approach to Data Gathering**

Figure 4: Approach to Data Gathering				
METHOD		VALIDITY	EFFICIENCY	BUY-IN
	Behavioral Event Interviews	High	Low	Moderate/ High
	Other Individual Interview Techniques	Moderate/ Low	High	Low
	Focus Groups	Moderate/ High	Moderate	High
	Surveys	Moderate/ Low	High	High
	Expert Databases	Moderate	High	Low

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### An Integrated Approach to Human Resource Management

Competency models are not ends in themselves. They are simply a means to an end — a set of standards to drive human resource processes. The goal for most organizations is a more effective, productive work force. Increasingly, organizations are concluding that, to develop a more effective and productive work force, it is necessary to align and integrate its human resource systems. Too often, an organization's human resource systems have been developed without regard to either its ultimate business strategy or to other human resource systems.

The result has been either a poorly focused — or even confused — work force.

Though competencies were originally developed to focus training and development efforts, organizations have begun to use competencies in virtually every human resource domain. More and more organizations are looking to build competencies into each and every practice — a key attraction to competencies.

Competencies can provide the linkage for developing a truly integrated human resource

system.

By viewing the entire range of human resource practices as a set of closely related activities, companies can:

- align human performance systems design with other process improvements or re-engineering interventions
- identify conflicts, synergies, and redundancies among various performance development processes
- clarify, communicate, and continuously improve the entire performance development system.

Figure 5 illustrates how competencies link larger organizational issues and a wide range of human resource practices.

Through the hiring and selection process, organizations can use behavioral-event interviewing techniques and scoring checklists to identify individuals who have the competencies needed to be successful in the organization. In general, the greatest effort is devoted to identifying individuals with competencies in areas considered to be difficult or impossible to develop or in areas where

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**Figure 5:**



immediate success is required.

When integrated into the organization's development and career planning processes, competencies have been used in a wide variety of ways. Competency-based curriculum design has been a mainstream practice for many years. In addition, career

planning across bands or roles has been used for many years by many organizations. More recently, competencies have been used to develop initiatives ranging from multi-source feedback and assessment to coaching tools and comprehensive-learning frameworks.

Through the performance management

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process, organizations can clearly communicate the behaviors important to individual success. They can also help individuals see how well they demonstrate the competencies and develop plans for individual improvement.

Competency-based human resource planning is an emerging area with potential for producing significant improvement in organizational effectiveness. Currently, firms are using competencies primarily in succession planning (i.e., to “rank” candidates according to competencies for a targeted position); management resource reviews (i.e., evaluating total team talent for strength, vulnerabilities, and development needs); and staffing decisions.

Finally, through the compensation systems, organizations can reward individuals for demonstrating and developing the competencies the organization says are important to success. In other words, the organization can reinforce what it says with some tangible action.

The balance of this booklet discusses competency-based performance management

as well as competency-based reward systems in more detail. We have found that these are the applications currently of greatest interest to the human resource community.

### Performance Management

Of the various human resource domains in which competencies can be used, performance management may well be the area in which most of the activity is now taking place. The reason for this is fairly simple. A good competency-based performance management process is the foundation for most other human resource decisions, including pay, training and development, and work force planning.

But how does competency-based performance management differ from conventional performance management? A review of companies’ practices and our own consulting experience suggests that there is a fair amount of similarity between competency-based performance measurement and conventional approaches. But some key distinctions still exist.

Most sound performance management

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systems use an ongoing, interactive process designed to link the organization's people with its vision, values, and goals. For most organizations, the process follows a familiar pattern:

**Planning** — translating strategy and values into team and individual performance objectives; establishing roles and accountabilities; defining desired results and expected behaviors. The key value that is added in a competency-based approach is the ability to include the expected behaviors as part of the planning process and providing appropriate tools to enable managers to discuss behaviors objectively.

**Coaching** — supporting efforts to achieve performance plan objectives; recognizing accomplishments and developmental efforts; reinforcing effective performance; stimulating improvement and developing skills. The key value added here is the ability to provide managers and employees with appropriate tools and techniques to observe and discuss behavior objectively.

**Evaluating** — comparing performance expectations; measuring progress; identifying

significant accomplishments and developments; recognizing and rewarding contributions to the business.

**Developing** — identifying strengths and areas for improvement, building on strengths and correcting deficiencies; discussing career goals; and fostering personal growth.

There are, however, key ways in which competency-based performance management differs from conventional performance management. These include:

- Criteria for assessment
- Sources of input
- Role of manager and employee
- Philosophy.

### Criteria for Assessment

Conventional performance measurement focuses on results – what is accomplished. This assessment can best be described as quantitative, short-term, and historical in nature. In contrast, competency-based performance measurement focuses on how things are done. The assessment is often more qualitative in nature, based on

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“observed” behaviors, longer range, and present- and future-oriented.

In actual practice, however, few organizations elect to go one way or another. Most organizations utilizing a competency-based approach to performance management use both results-based and competency-based measures. This allows the organization to recognize both short-term and long-term contributions.

### Sources of Input

While we have observed an increase in the use of multiple sources in evaluating individual performance, this trend appears to be especially strong among organizations using competency-based performance management.

The sources of input often include self, manager, external customers, internal customers, team members, and direct reports.

The reason for the greater prevalence of multi-source feedback in competency-based systems is tied largely to the nature of competencies. Since competencies are generally more qualitative and cannot be measured in the same way “results” are measured, many argue that multi-source

assessment is necessary to ensure the reliability and validity of the evaluation.

Published research suggests that multi-source assessment, when structured effectively, is more likely to be:

- fair, because as rating inflation is attenuated, it has less adverse impact on diversity and there are more process and technology safeguards
- accurate, since a less-biased, more-balanced perspective is provided
- credible, because opinions of work associates are perceived to be more believable
- valuable, inasmuch as work associates are likely to be more specific and make greater distinctions among performance criteria
- motivational, since peer pressure and the desire to be recognized as competent by associates motivates constructive behavior change.

Despite the apparent advantages of multi-source assessment, many organizations, concerned about administrative burden and other problems (such as rater bias), continue to use the more-traditional, top-down



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### Role of Manager and Employee

For many organizations, competency-based performance management also means a change in the roles typically played by managers and employees. In a conventional performance measurement process, the role of manager is typically viewed as one of

“supervisor” or “counselor”. In a competency-based approach, the manager’s role can be changed to one of “coach” and “facilitator”. Managers commit themselves to providing employees with formal training, coaching and competency development activities. The following table highlights the differences between counseling and coaching:

Counseling	Coaching
<ul style="list-style-type: none"><li>• Problem-oriented</li></ul>	<ul style="list-style-type: none"><li>• Development-oriented</li></ul>
<ul style="list-style-type: none"><li>• Specific, detailed, carefully planned, formal (annual performance review)</li></ul>	<ul style="list-style-type: none"><li>• Ongoing feedback, often informal and/or of short duration</li></ul>
<ul style="list-style-type: none"><li>• Responsibility of designated performance leader</li></ul>	<ul style="list-style-type: none"><li>• Can be encouraged as role for entire team</li></ul>
<ul style="list-style-type: none"><li>• Requires immediate attention and specific plan for resolution</li></ul>	<ul style="list-style-type: none"><li>• Suggests intermittent discussion focused on improvement</li></ul>
<ul style="list-style-type: none"><li>• Requires close supervision and immediate feedback</li></ul>	<ul style="list-style-type: none"><li>• Promotes collaborative, two-way dialogue</li></ul>

While the manager’s role changes, so does the role of the employee. In conventional systems, the employee plays a somewhat passive role. In many competency-based approaches, however, the employee is expected to become a more active partner who takes much more responsibility for his

or her development. Competencies provide a clear “road map” of accountabilities and opportunities for personal change. No longer does the employee need to wait for the manager to define expectations and create development plans. Expectations are specified by the competencies, strengths and



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weaknesses can be determined through team feedback, and individual action plans can be created without relying on the manager. Managers can act -- and be seen by employees - as resources, offering ongoing feedback and helping to ensure continued progress toward achieving company goals.

For many organizations, this role change is critical to their future success, since increasing spans of control often make it impossible to manage employees "the old way".

### Philosophy

Perhaps the most important distinction between competency-based performance management systems and conventional systems is one of underlying philosophy. Many organizations with conventional performance management approaches focus performance management narrowly on operational goals and/or the steps that lead up to and include performance appraisal. By contrast, organizations that utilize competency-based approaches to performance management are more likely to view performance management as the foundation for a systematic approach to leveraging human

resources. They are more likely to view performance management as the cornerstone of an overall performance development process that also includes:

- hiring and selection
- team assessment
- development and career planning
- coaching and mentoring
- self-directed team learning
- courseware focused on competency development.

ARLO decided to include several criteria in the performance management process — core and leadership competencies, achievement of competency-based development objectives, and achievement of operational (results-oriented) objectives.

Each year begins with:

- a discussion of business objectives
- a self and managerial assessment of competencies
- agreement on developmental objectives based on the competency assessment

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- agreement of operational objectives based on business needs.

Throughout the year, managers are expected to play the roles of coach and facilitator. At the end of the year, managers and employees meet to discuss accomplishment of objectives.

Multi-source assessment is used to establish initial competency level. It is also used when the employee requests such an assessment, either to get feedback on his or her progress or as a basis for career progression.

### Competency-Based Reward Systems

(This section was developed by Darrell Cira of William M. Mercer)

For the most part, using competencies in reward systems is a fairly new practice, and some novel approaches have emerged. In fact, it is virtually impossible to summarize the variety of approaches currently being utilized or pilot-tested. It is possible, however, to identify how the approaches vary and the series of choices individuals face in developing a competency-based pay system.

#### 1. How does one determine the starting point for the pay decision?

As in the design of any compensation system, an organization must first identify what it fundamentally wants to compensate — the job, role, or person.

**Job** - the narrowly defined, relatively static cluster of duties and responsibilities in which the individual is employed (e.g., Compensation Analyst, Senior Compensation Analyst, Recruiter, Senior Recruiter, etc.).

**Role** - a more dynamic cluster of frequently changing duties and responsibilities requiring broadly similar types of knowledge, skills, and abilities (e.g., Human Resource Professional)

**Person** - the cluster of attributes possessed by the individual regardless of position assignment.

Recently, a number of organizations and consulting firms have positioned competencies as an approach to paying for the person rather than the job. While competency-based systems can be an effective mechanism for managing person-based pay, most competency-based pay systems still maintain the job as the fundamental basis for defining

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value. Competencies are often used as a way of determining the individual's value in the job.

## 2. What should the pay structure look like?

In today's environment, more and more organizations are looking to broadbands as the vehicle for managing pay. However, we have found competency-based systems that utilize traditional ranges, wide ranges, and broadbands:

**Traditional Ranges** — a large number (approximately 25) of grades with relatively narrow spreads from minimum to maximum (e.g., 35 to 60%)

**Wide Ranges** — a somewhat smaller number of grades/bands (10 to 14) with range spreads of 60 to 75%

**Broadbands** — a very small number of grades/band representing significant career changes, typically characterized by four to six bands with range spreads in excess of 100%.

Nothing about competency-based pay would

necessarily dictate one approach over another.

One must consider how work is organized, the hierarchical structure of jobs within the organization, the nature of career development, and other factors.

## 3. Which pay decisions should competencies influence?

Competencies can influence pay decisions through a number of mechanisms.

Competencies can influence:

- pay opportunity by influencing the grade or band to which the individual, role, or job is assigned
- pay increase decisions by allowing competencies to influence the overall performance assessment
- incentive pay decisions by allowing competencies to either determine or influence the incentive payment calculation.

While the use of competencies to influence pay decisions is becoming more widespread, we have yet to find many programs where pay decisions are determined exclusively by competencies. More often than not, competencies are used with other factors to

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narrow the range of appropriate pay.

### 4. Should we reward competency level or competency growth?

To the extent the decision is made to use competencies to influence the base pay decision, organizations must then decide whether to reward for competency level or competency growth.

In one method of paying for competency level, a target or standard level of competency is established for an individual, role, or job. The individual's actual competencies are assessed relative to this standard and a gap is determined. An individual whose own competency level is lower than the target level should be paid less than the target rate of pay for the job. By contrast, an individual whose own competency level is higher than the target level should be paid more. Successfully implementing this approach requires:

- a fairly high level of precision in the assessment tool to discriminate level differences
- a high level of trust in the evaluators

- patience, since experience suggests changes in competency level require significant development time.

Another method of paying for competency level is simply to use competencies to place individuals into a zone of a pay range. For example, the individuals who are highest in competencies would be paid at the top of the range.

With respect to rewarding for competency growth, we have found that organizations either base their salary increase decisions on change in level of competency over a specified period of time or achievement of some specific competency development goal.

### 5. How should the organization provide rewards for results?

Organizations paying for competencies are sometimes concerned that individuals will lose their focus on results. But it's not an either/or proposition. Most organizations reward both competencies and results, though the mechanisms for doing this vary from organization to organization.

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Some organizations choose to determine salary increases using both results and competency growth, as is illustrated in the table below. In this case, individuals can only receive large salary increases by increasing their competencies and delivering results. Failure to succeed in one or the other area would result in a smaller increase.

### Case Examples

Since current practices defy a simple model, the best approach for demonstrating how competency-based pay can be implemented may be through case examples.

#### Person-based Pay

ARLO provides a good example of an organization that took a person-based approach to competency-based pay. Remember that ARLO decided it could achieve the most leverage by changing managers' and team members' behavior to complement a new self-directed work team approach. ARLO began introducing competencies through the performance management process and training curriculum, but later decided that changes in the compensation program were needed to accelerate the development of

team leader competencies.

To meet this challenge, ARLO opted for a person-based pay system in which all supervisory and middle management employees are placed in the same broadband, with a 167% spread from band minimum to band maximum. The band is divided into three zones, each defined by a set of four competencies. Traditional titles have been eliminated and replaced by titles corresponding to each of the three competency zones — Resource, Senior Resource, and Site Resource. Individuals are assigned to one of the three zones within the band based on an assessment of their levels of competency. Thus, competencies are used to determine an individual's pay opportunity. An employee can now request a multi-source competency assessment twice a year. Results of this assessment are used to determine whether or not the person should be promoted to a new zone.

Pay movement within the zone — Resource, Senior Resource, and Site Resource — is based on the annual performance review and achievement of developmental and operational objectives.

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### Role-based Pay

In 1991, a commercial insurance carrier was purchased by a European-based financial services company. While the organization had always been successful, revenues had been flat and profits less than desired by the new owners. In an effort to increase market share and profitability, the organization re-engineered a number of key business processes and wanted to change its human resource systems to complement the operational changes. Among the changes desired by the organization were:

- an organization-wide focus on customer service
- greater flexibility in position assignment
- a work force with a greater breadth of skills and competencies.

To meet these challenges, the organization decided to move toward a "role-based" compensation program supported by competencies. To migrate to this role-based method, the organization first identified six bands to span all grades from non-exempt to vice president level. At the same time, the organization identified eight functions within the company. A role was defined as

a cell representing the intersection of band and function. The table on the next page shows how this was accomplished.

Over time, the company expects traditional job titles to disappear and be replaced by role titles (e.g., Finance Professional, Actuarial Associate, Marketing Principal). Moreover, the company expects individuals to move from position to position within a role as the organization's needs change or as individuals develop their careers.

In administering this program, the organization decided to use competencies in a number of domains. A group of eight core and leadership competencies were used to define each band and assign positions to bands. To move to another band, a position must be available, and the individual must have mastered, and be demonstrating, the competencies needed to succeed at that level.

Competencies were also used to define developmental objectives for each individual. Salary increase decisions are now based on the individual's competency level, position in range, accomplishment of developmental objectives, and accomplishment of more results-based operational objectives.

## Competency-Based Systems

by Dr. Stephen C. Schoonover  
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	Associate	Senior Associate	Professional	Senior Professional	Principal	Senior Principal
Customer Service						
Finance						
Corporate Development						
Sales						
Marketing						
Actuarial						
Admin Services						
Information Tech						

### The Future: What to Expect

Predicting the future is a risky business, but in this case our crystal ball seems very clear.

We believe that more and more organizations will be implementing competency-based applications, and that organizations with existing models will be looking for more effective ways to deploy them for greater overall impact. The reasons are clear:

As organizations get the last ounce of productivity improvement out of business process re-engineering, they will need to turn to the asset they have ignored over the past decade — the “human asset” — if they are

to gain greater productivity enhancements.

Competency-based human resources systems have the capacity to actually drive organizational change rather than simply enabling change to take place.

Competency development provides a useful alternative to the “job progression” that many organizations are seeking as they delayer, broadband, and otherwise de-emphasize the job.

Competency-based tools offer a more effective method for targeting and leveraging a broad range of self-directed activities that actually



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produce personal change.

There are some potential obstacles to widespread use, however, that need to be navigated.

**First** is the need to streamline the model-building process. In the past, organizations, spent thousands of dollars and countless hours of staff time creating “competency models” without any tools or processes for applying these tools. This is clearly a waste of time and money. For competency-based systems to become more widely used, organizations must be able to develop models faster, and at a fraction of the cost. This is why we often prefer to use the process of Rapid Model Prototyping. It enables organizations to spend the majority of time and effort where it belongs — on tools, processes and implementation.

**Second**, effective practices for implementing competency-based systems must be developed. Too often, models are not translated into practical applications that can be sustained over time. Simple, user-friendly tools must provide help for managers and individuals with their day-to-day human

resource problems and opportunities.

These obstacles are being overcome as more and more organizations develop and implement competency-based human resources systems. We see competency use expanding significantly over the next decade, especially as organizations become more aware of best practices and see the power of using competencies as an integrating vehicle for all human resources systems.