

The Impact of Competency Management

Competency Management Solutions

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People are Crucial to Business Success

Remember the days when machines, office equipment, buildings, cash, accounts receivables, etc. were the only assets deserving of careful management? These were identified as the “hard” factors. The “soft” factors, such as people, were not seen as being as crucial to business success as the hard factors. Most organizations did not want to waste time or money focusing on improving their employees because they were not as important as the physical inputs and outputs.

Then, automation and technology started to lead to drastic improvements in productivity. Companies were constantly looking to develop more efficient and cost effective methods to develop their products in order to get ahead of their competitors. As more improvements in productivity were made, the physical products and services offered by companies became very similar. Differentiating products and services became more difficult. Major investments in technology were aimed at internal and external integration of their value chain. Impacting a company’s position in the market was a struggle requiring innovation and fast implementation.

One strategy that companies have begun to implement to help establish them in the competitive marketplace is to spend more time and money on human capital. It has become important to focus on how results are achieved and not simply on what is achieved. The key to competitiveness today is the company’s ability to manage and develop the knowledge and skills of their people. In order for this strategy to work, companies have to design and build systems that will support it.

According to Jim Caprara, vice president of human resource development at Nextel Communications Inc., “A training and education department has the potential to touch every point in both the employee and the customer life cycle.”¹ The training department must be pre-emptive to the needs of the company. They can do this by identifying and communicating the competencies that are needed for the company to be successful in the present and future. A competency is a set of behaviors that encompasses skills, knowledge, abilities, and personal attributes that, taken together, are critical to successful work accomplishment. A key component of a competency is that it should be observable and measurable. Competencies become the enabling vehicle for outlining and communicating the organization’s strategy to employees to ensure that the organization will attain its goals.

The beginning of the competency movement is usually tied to David McClelland. He wrote “Testing for Competence Rather than Intelligence” which suggested that academic aptitude and knowledge-content tests alone cannot predict a high level of performance. McClelland also indicated that personal qualities, motives, experience and behavioral characteristics could “distinguish the most successful from those who were merely good enough to keep their jobs.”²

The process of selecting, organizing and maintaining the technical and other competencies of the organization are of great strategic importance. This is why companies have begun to see the importance of competency management which is the foundation for managing and developing employees.

Footnotes:

1. Whitney, K. (September 2004). Jim Caprara: Connecting Education and Nextel Strategy. *Chief Learning Officer*.
2. McClelland, D. (1973). Testing for Competence Rather Than for Intelligence. *American Psychologist*, 1-14.

Competency Management Based Approach

In 1996, William Schiemann and Associates³ conducted a national survey of a cross-section of executives. According to the findings, measurement management companies tend to be higher performers than those companies that do not emphasize measurement. A large number of measurement-managed companies were categorized as:

- ▶ *Industry leaders*
- ▶ *Financially in the top third of their industry*
- ▶ *Successful managers of their change efforts*

The findings also indicated that employee measurement is the key measurement area that separates successful from less successful firms.

their performance management systems. The results also identified three characteristics of the most successful performance management systems:

In 1997, DDI³ completed a survey which investigated the performance management practices of 88 organizations. The results indicated that 38% of the organizations frequently used competencies in

- ▶ *Training was required in order to use the system.*
- ▶ *Accountability was clearly established for the people using it.*
- ▶ *Competencies were the central focus of the system.*

These studies suggest that performance management systems, especially those that focus on competencies, help an organization to improve their financial performance and productivity. Managers have begun to implement competency management systems within their organizations but it is extremely important that these systems are created and implemented properly. For example, job roles and their related competencies must be clearly defined because this information serves as the foundation for the competency management

system. If this information is not accurate, employees could be assessed against competencies that are not relevant for their job.

Taking a competency management based approach to workforce development and training requires that the following process is followed:

Competency Management Based Approach

Step 1.	Step 2.	Step 3.	Step 4.	Step 5.
Identify the goals and mission of the organization	Conduct a job task analysis	Set performance standards	Assess individual skills gaps and identify learning resources	Observe and measure changes in key performance indicators

After the goals and mission of the organization are identified, a job analysis must be conducted in order to define job roles and related competencies. It is important to ensure that these competencies align with the goals and mission. The third step is to set performance standards that are required for the tasks and related competencies.

In the fourth step, individual skills gaps will be assessed and learning resources will be identified that can be utilized to minimize these gaps. Finally, changes in key performance indicators should be observed and measured at individual, departmental and organizational levels.

Footnote:
3. Sumlin, R. (unknown). *Performance Management: Impacts and Trends*. Development Dimensions International.

The Benefits of Taking a Competency Management Based Approach

Once a competency management system is integrated into an organization, it can have far reaching benefits throughout the organization. As mentioned earlier, it can be used to identify employees' skills gaps, thereby targeting specific needs determined to be "strategic" to success. Therefore, Senior Management, HR, and/or Training Managers can use this information to identify and map critical vacancies and future growth needs. This is important to

ensure that the organization has the skills needed to reach its objectives. Training Managers can use the skills gap information from the competency management system to decide what type of training is currently needed. In today's tight economy, it is very important for managers and HR to have the ability to measure the impact of training on bottom-line company performance. Competency management systems allow this to be accomplished.

► EXAMPLE

A competency management system identifies that an employee has a skills gap in performing simple accounting tasks. Based on this information, the employee is sent to an Accounting class. A few months after the class, the competency management system indicates that the employee no longer has a skills gap in the accounting area. The skills gap information indicates that the training did positively impact the employee's performance.

Competency management systems can be utilized by HR/Line Managers to improve their recruiting efforts. Once the skills needed for good performance are identified, HR and/or Line Managers can use selection tests that will assess those specific competencies. This will save the company money and time because it will help to ensure that the right candidates are being selected for the jobs. A comprehensive skills inventory also supports project staffing.

Matching skills to project requirements can reduce overall risk and leverage under-utilized talent.

Career management plans can be created using competency management systems. Job applicants often look for additional benefits when they are deciding what job to take. In most cases, job applicants who are smart and career motivated will be more attracted to companies that have career development programs

Where Do Software Systems Fit Into All of This?

As indicated in the study above, companies understand the importance of competency management systems. Generally companies employ people in many different jobs which may require different competencies. Therefore, a company may need to have hundreds of different competency models. Companies like these have a great need for a practical technology that can help them manage numerous competency models, which can be highly detailed. In some cases, organizations must have detailed reports and audit tracking in order to meet strict organizational requirements.

According to the International Association for Human Resource Information Management (IHRIM), "the use of technology to manage human capital is a strong area of interest for our membership - especially in times like these when budgets are tight and revenue pressure is high."⁴ Although HR enabling technologies have demonstrated that they can increase the efficiency of HR functions, generally only medium-sized companies around the world tend to be utilizing them.

What are Key Performance Indicators?

Once a competency management system has been implemented within an organization, it is important to identify whether it is helping the organization to achieve its goals. This can be done by identifying key performance indicators (KPIs) which can help an organi-

zation define and measure progress toward organizational goals. Measurement plays a critical role in transforming business strategy into results.

► It is important to keep the following guidelines in mind when utilizing KPIs.

- KPIs must be quantifiable.
- KPIs must reflect organizational goals.
- They must be clearly defined before the competency-based system is implemented.
- It is important that the same definition is used from year to year.
- Only a small number of KPIs should be used in order to keep everyone's attention focused on achieving the same KPIs.

KPIs will be different for every organization. For example, a KPI for a hospital could be the number of malpractice suits that are filed each year. It is definitely feasible for a company to have several KPIs and then a specific department within the company would have their own KPIs which would support the organization's goals.

In order for KPIs to be useful, the process for measuring the KPI and the target for the KPI must be identified. There should be a clearly defined process for obtaining the information that will be used to measure the KPI. In addition, a clear target must be identified so that everyone knows what to work towards. For example, a target could be to reduce the number of malpractice suits by 5% per year.

Footnote:

4. <http://www.genesys-soft.com/docs/news/ny-hrims-pr.html>

KPIs and ROI Survey by Metrus Group

In 1999, the Metrus Group surveyed both industry leaders and other companies regarding KPIs and return on investment (ROI).⁵

The questions that were asked and the responses of the companies are indicated below.

Survey Questions	Percent of Industry Leaders who answered “Yes”	Percent of Other Companies who answered “Yes”
Do you have a well-defined and balanced set of strategic measures and are these measures used to help manage the business?	69	39
Are people measures part of the balanced set of strategic measures?	39	19
Do you have performance targets for your people measures?	42	20
Do you hold people accountable for achieving the targets?	44	22
Do you use people measures to predict customer satisfaction and financial performance?	22	14

The study indicates that some companies are using strategic measures but only a small percentage of them are using them to predict business performance. This is the area that needs the most

improvement. Companies need to follow all of the guidelines outlined above in order to utilize KPIs to their full potential.

Footnote:
 5. Morgan, B.S. and Schiemann, W.A. (January 1999).
 Measuring People and Performance: Closing the Gaps. *Quality Progress*.

Case Studies

Self-Assessment

The competency management approach was successfully utilized at a large government agency. This agency hired Avilar Technologies, Inc. to work on a training needs analysis project. This project was supposed to benefit both the training department and the 9,000 employees world-wide. The agency had recently implemented a policy that required all employees to have an individual development plan. This became an additional objective that would be addressed by Avilar's competency management system. The government agency had already developed tasks and competencies required for all of the positions in the agency.

Avilar worked with the agency to review the tasks and competencies in order to ensure their validity. Once the foundation was validated, employees were able to use the competency management system to assess themselves on the competencies that are required for their job. Once they completed this step, their performance gaps were identified and individual development plans were created. The competency management system also connected the employee's

gaps to learning resources that would allow the employee to eliminate their performance gaps.

The competency management system enabled the agency to direct training investments at performance areas where the manager and the employee agreed that training would close gaps and positively impact business performance. Employees were assessed using the competency management system after they received training. This information allowed the agency to identify whether training was improving the performance of the employees.

In addition, the agency decided they wanted to use the competency management system to provide career planning. Therefore, in the next phase of the process, employees will be able to see the competencies that are required for positions in their career path. They will also be able to identify the learning resources that will allow them to learn the competencies which they do not currently possess.

Objective Assessment

In another project, Avilar worked with a large automobile manufacturing company. The top business leaders in the company wanted to assess 2,000 employees worldwide on ten competencies. Eight to ten questions were developed for each competency and employees had to obtain at least a 70% for each competency in order to pass.

When an employee failed in a competency area, the competency management system identified the learning resources that the employee should utilize to improve their performance. Employees were retested each month in order to identify whether the training was having an impact on their performance.

Conclusion

Competency management can be seen as “complementing” existing HR functions such as selection, training, performance management, succession planning and career development. If a company wants to survive in the competitive world that we live in today, the company must view its employees as their most important resource. This is an important concept that many organizations have still not accepted. The bottom line is that competency-based systems require a substantial investment in people but the likely payoff in

performance is worth it. Competency systems offer the opportunity to correlate human capital investments and business results (metrics). The company will possess more versatile employees who will be able to perform more effectively and efficiently. As Michael Hammer, President of Hammer and Company, said “Over the long run, the most critical issue in an organization’s success will be its capacity for learning.”

Biography Lauren Havighurst

Lauren Havighurst, M.A., serves as a Competency Management Solutions Practice Manager at Avilar Technologies, Inc. Lauren holds a Master of Arts degree in Industrial and Organizational Psychology from the University of North Carolina at Charlotte. She works directly with clients to deliver training and competency management solutions. She assists clients with the development of competency libraries. Prior to joining Avilar, she was an Industrial/Organizational

Psychologist with Fields Consulting Group, Inc. At Fields, she developed, validated and administered assessment centers for various public sector clients and government agencies. Lauren also developed and facilitated training programs on leadership development, career development and communication skills.

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Endnotes

1. *K. Whitney*, "Jim Caprara: Connecting Education and Nextel Strategy," Chief Learning Officer, September 2004.
2. *D. McClelland*, "Testing for Competence Rather Than for Intelligence," *American Psychologist*, 1973: 1-14.
3. *R. Sumlin*, (unknown), *Performance Management: Impacts and Trends*. Development Dimensions International.
4. <http://www.genesys-soft.com/docs/news/ny-hrims-pr.html>
5. *B.S. Morgan and W.A. Schiemann*, "Measuring People and Performance: Closing the Gaps," *Quality Progress*, January 1999.