Competency-Based Performance Management

Adapted From
Step 6 of Workitect’s
Building Competency Models and
HR Applications workshop

Introduction
Many organizations are becoming more interested in management and appraisal of competence—the “how” of performance. They are seeking more qualitative assessment, oriented to the future and focused on development. A competency approach brings a different perspective to performance management. Performance is viewed in terms of the process employees use to achieve their job results. It combines planning, management, and appraisal of both performance results and competency behaviors. It assesses what employees accomplished and how they did it (with personal characteristics they possess that predict superior performance in present jobs, or in future jobs).

Performance and competence are balanced in a competency-based performance management system. In a line job, achievement of performance results may be weighted 80-90 percent and demonstration of competency behaviors only 10-20 percent. At the other extreme, an appraisal form for a service position might weight competence 100 percent. Performance objectives for a staff job might give equal weight to results and demonstration of competency behaviors.

In traditional systems, achievement of performance results is quantified, past oriented, and tied to unit goals, based on a short term, and used to make compensation decisions. Competency appraisal is more qualitative, longer range, future oriented, and used for employee development and career path planning.

Performance
(“pay for results”) 50%-90%
• “What” of performance
• Quantitative: Tied to unit goals
• Short time frame: One year, past performance
• Reward oriented

Competencies
(“pay for skill”) 10%-50%
• “How” of performance
• More qualitative
• Longer time frame: Future performance in present and future jobs
• Development (behavior change) oriented
Organizational Issues
Problems that indicate a need for competency-based performance management include the following:

• Job performance standards and appraisal criteria are seen as unequal or unfair because:
  – One group of employees must achieve at a higher level than other employees in equivalent jobs to receive a good evaluation or reward
  – Employees are graded on a “bell curve,” so that most workers are rated average or below average, regardless of the absolute level of their performance
  – Expected results are not under the workers’ control, (e.g., using a productivity index such as “tons of steel per secretary”)
  – Employees have little input into the performance goals set for them.

• Performance appraisal is seen by managers and employees as a bureaucratic “paperwork” exercise that they do not take seriously because it has little impact on employee performance or development.

• Employees see nothing in the system for them; performance appraisals do not address their questions about skill development or career advancement.

• The performance management system has little impact on actual management; it doesn’t lead managers to do their jobs better or to develop or provide feedback to their employees.

• The performance management system does not reflect or reinforce the organization’s strategy because it fails to focus employee behavior on strategic priorities such as quality or service.

• Performance ratings are inflated. If 95 percent of the workforce is rated “4 (very good)” on a scale of 1 to 5, employee ratings are not of any use for promotion decisions or succession planning.

A competency-based approach is particularly appropriate for:

• **Uncertain Environments.** In uncertain and rapidly changing environments, where results are not under employee control, hard results objectives are often rendered irrelevant by external events. In such situations, evaluation must be based on whether employees did everything they could, whether they demonstrated the right behaviors rather than achieving targeted results. The less control employees have over results, the more performance should be based on expression of competencies.

• **Qualitative/Process Service Jobs.** In jobs with no measurable outcomes, qualitative skills-competencies are the best indicators of employee performance. The more subjective the job output, the more important it is to appraise competency behaviors.

• **Jobs Intended for Development of Future Performance.** The more a job or organization’s objectives for employees stress development of skills (e.g., management trainee positions), the more appraisal should be based on demonstrations of improved competence.
• **Changing Organizational Strategy, Focus, or Markets.** In changing environments and organizations, employees’ potential to contribute to the firm in the future may be more important than their past performance. For example, the ability to sell a firm’s new products in a global market may be more important than sales of older products in domestic markets. Most performance management systems are past oriented. The greater a firm’s emphasis on future performance, the more its system should stress development and appraisal of competencies.

**Integrating Competencies into a Traditional system**

While adding competencies to a traditional system will broaden the focus of the appraisal it will not “fix” a broken performance management process. When moving to a competency-based system, view it as an opportunity to launch a new, more effective system. Announce the change and communicate the objectives, e.g. focusing not only on what an employee does but also on how they did it. Follow the steps for developing the system show below.

**Steps in Developing a Competency-Based system**

1. Design, or re-design, the performance management process including:
   - Objective of the process
   - Expectations of both employees and supervisors
   - Key actions such as goal setting, periodic performance discussions, formal review, developmental planning, etc.
   - Timeline or schedule for the annual process
   - Determine weighting for performance on the competencies
   - Design the performance appraisal to include competencies and a section for employee development planning

2. Identify competencies required for superior performance in present jobs and add them to the performance appraisal form. To assist managers in rating performance, specific performance levels for each competency can be defined as shown below. The table defines performance at the 1, 3, and 5 levels. Performance that fell between the 1 and 3 levels would be rated 2, and a 4 would be used to rate performance between the 3 and 5. If only 3 levels of performance were desired then the scale could be numbered 1, 2 and 3.

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<td>• Anticipates the impact of ones ideas on the emotions and concerns of others</td>
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<td>• Uses available data to persuade</td>
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<td>• Uses concrete examples to make a point</td>
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<td>• Notices and accurately interprets what others are feeling</td>
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3. Develop and implement a communication program to announce the new performance management process.

4. Train managers and employees in the new performance management process. The training would include all the information identified in Step 1, above, as well as introducing competencies and offering instruction in using them as part of the performance management system.

5. Training in performance coaching for all supervisors should also be done to prepare them for the development discussions they will be expected to perform with each direct report. Key areas of the training could include:

- Reaching agreement with the employee on his or her “actual” levels of competence. The manager should be able to explain the reasons for his/her ratings. In some cases, especially if the employee’s self-assessment is significantly different than the manager’s, the manager might solicit input from the employee’s peers, subordinates and customers to gain their perspective on the employee’s performance in terms of one or more of the competencies. The feedback from the others can be used to help establish the ratings and explain the reasons for the ratings.

- Working with the employee to identify the “desired” levels of competence he or she wants to develop to meet his or her own performance or career advancement goals.

- Creating a “contract” between the employee and the manager on
  – The employee’s competency development goals and the action steps he or she will take to attain them
  – The help and support the manager will give the employee

This coaching approach uses the principles of “self-directed change” theory, which holds that adults change only when they:

- Feel it is in their own best interests to do so
- Feel dissatisfied with their existing situation or level of performance (“actual”)
- Are clear about a “desired” situation or level of performance
- Are clear about action steps they can take to move from the actual to the desired situation or level of performance
Summary
Competency-based performance management systems shift the emphasis of appraisal from organization results achieved to employee behaviors and competencies demonstrated. Diagnosis and problem solving to deal with poor performance takes this form: “If results are not at the desired level, give higher priority to these job tasks, demonstrate these behaviors more often, and develop these competencies” (i.e., model the task priorities, behaviors, and competency levels of the best performers in the job).

The addition of competencies to performance management systems has important implications for management. Managers explicitly commit themselves to provide employees with formal training, coaching, and other competency development activities during the performance period.

The most important factor in implementing a competency-based performance management system is training managers to provide this coaching and developmental assistance. (Studies of effective performance management systems consistently find training to be an important input.) Employee training also helps employees understand how the system works, what their role is, how to assess themselves, and how to contract for competency development activities with their managers.

Reference:
Workitect’s Building Competency Models workshop instructional materials

Workitect helps organizations design and implement competency frameworks, models, and competency-based human resource applications.

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