

COMPETENCY-BASED PERFORMANCE MANAGEMENT

What, Why, and How

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 90 percent and demonstration of competency behaviors only 10 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.

STEPS IN DEVELOPING A COMPETENCY-BASED SYSTEM

1. Identify competencies required for superior performance in present or future jobs (competencies needed to implement a desired strategic change).
2. Train managers and employees in performance management (e.g., coaching for performance improvement). Performance coaching involves:
 - a. Agreement between manager and employee on his or her "actual" levels of competence. An employee's competency levels are most easily assessed with "360 degree" ratings by colleagues "all around" the employee (i.e., by his or her boss, and a sample of peers, subordinates, and customers who know the employee's work well). The average of these ratings is compared with the employee's self-assessment of his or her competencies.
 - b. The employee identifying the "desired" levels of competence he or she wants to develop *to meet his or her own performance or career advancement goals.*
 - c. Agreement on a "contract" between employee and 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

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: Competence At Work, by Lyle Spencer and Signe Spencer; 1993, John Wiley & Sons.