Understanding and measuring competence and performance

Dr Tony Miller

Competence + performance = productivity. How well do HR professionals understand this formula? If HR is to be a significant business partner then it must both understand and be able to give advice on the formula that produces results.

Measuring and valuing competencies

The topic of how to accurately measure and value competencies has eluded both line managers and HR personnel for years.

In this article I will illustrate how, with the aid of software, it is possible to measure and place a value on every aspect of competency in your company.

What are competencies and how are they structured?

Competencies define and represent standards of quality. Without such standards, it is easy to see how mismanagement seeds economic downturn. In the drive for productivity — particularly in the world of banking and finance — focusing on performance alone in an attempt to generate greater productivity can result in spectacular disasters, as we all know. A singular focus on performance in any business is a sure sign of poor management, stupidity, or sheer greed.

Similarly, high productivity without competence will deliver results but without an essential underpinning of quality assurance and standards, those results cannot be sustained. Competencies provide us with an assurance of quality and safety — both vital ingredients for sustained high productivity.

To get the most from a competency approach, managers need to fully understand how competencies work and why they are important. The abuse and misunderstanding of how competencies work has meant that in many organisations an overly complicated approach has significantly reduced their impact on productivity. In an attempt to rectify this we have set out from scratch how competency frameworks should work; in other words they can be a positive contributor to productivity and, more importantly, are credible to the business users. Regardless of what approach you take — or which model you use — simplicity and clarity of approach are essential if you are to maximise your investment.

We define competency in a work-related setting as *a set of key, observable behaviours*. The operative word here is *key*. How many competencies should one employee have? From practical experience it comes down to no more than eight, with six being the average. Key competencies are the ones that really make the difference.

Figure 1 shows how a team leader competency is constructed. The smallest elements are seldom individually rated and training for these parts typically occurs on the job. In *Figure 2*, the *competency unit* is of key interest as this is what we measure and provide training for as need arises.

Figure 1

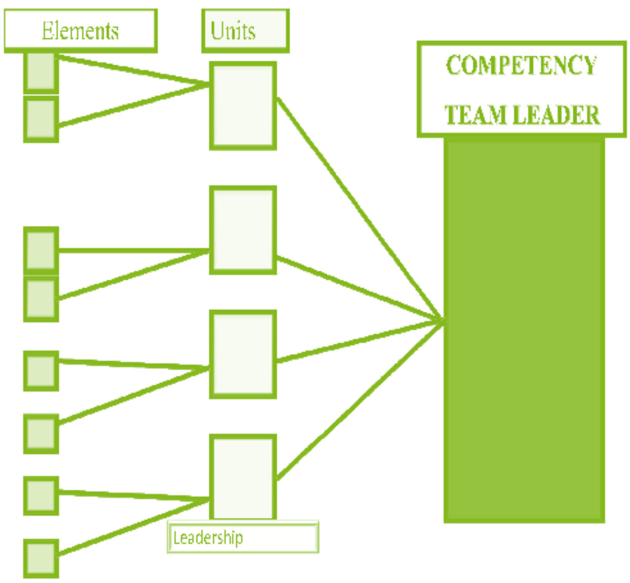
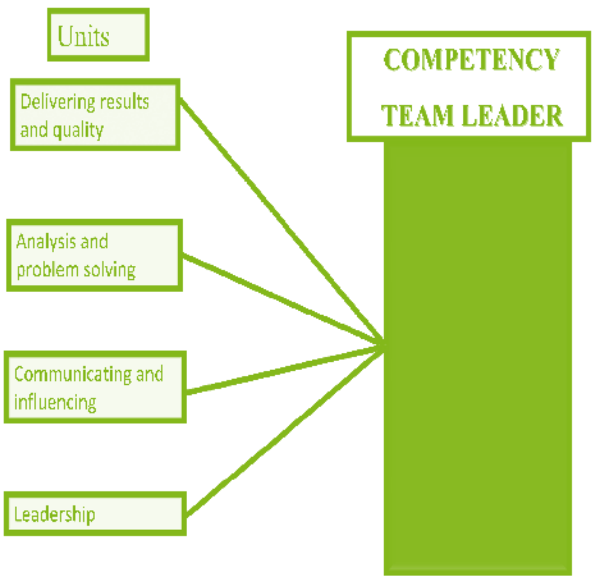


Figure 2



Competencies are comprised of three parts: the competency itself, the units that feed into the main competency and smaller elements that lead to the units which in turn feed into the key competency. (See *Figures 1* and *2*). From a training needs analysis point of view, competencies are challenging, especially when the competency does not quite match a training course or packaged solution. Identifying the appropriate training to achieve a higher level of competency is subject to broad interpretation.

The organisational requirement of competence is important. Although competence affects every individual, the requirement for competence has already been scoped, approved and funded at the corporate level. Therefore, although competencies appear to be an individual training need, they are really part of the organisational requirement that guarantees safety and quality.

Before contemplating the training needed it is important to understand the difference between competence and performance. While competence guarantees both safety and quality, it does not, however, guarantee productivity.

Before embarking on an exploration of training needs, minimum and maximum standards need to be set for the competency framework within your organisation. Although it is unlikely that you know, right off, the minimum, average and maximum competency levels required in your organisation, this data is essential when you conduct your training needs analysis. For example, if the minimum competency level is 50%, the average competency is 70% and the maximum competency is 80%, then you can clearly identify the priority for the training needs analysis resulting from the competency level of the individual. So research and pre-work is highly recommended before starting down this path.

This might sound complicated but, in practice, the concept is incredibly simple and works well. In performing a training needs analysis, the most important, efficient part to consider is training at the unit level because that's where training has maximum impact.

Let us look at the following example. The competency is team leadership. You will soon see how this fits in with the scheme as shown in *Table 1*.

Team leader competencies

Competency unit	Definition	Anchor
Delivering results and quality	Directing effort to the achievement of objectives	Ensures satisfactory team delivery of defined goals, overcoming most problems within own area of specialisation
Analysis and problem-solving	Analysing information effectively and drawing sound conclusions	Evaluates available information, reaching decisions based on key facts and practicality of solutions
Communicating and influencing	Achieving understanding or gaining acceptance of ideas and proposed action	Prepares case fully, stressing the benefits to be gained and inspiring confidence in own views
Leadership	Getting the best from others	Monitors progress towards achieving clearly defined shared objectives, provides feedback, support and encouragement to individuals on specific tasks

Table 1

Unit 1 — delivering results and quality

Definition: Directing effort to the achievement of objectives
Anchor: Ensures satisfactory team delivery of defined goals, overcoming most problems within own area of specialisation

Positive indicators — elements	Negative indicators
• Monitors progress of individuals against their targets; encourages achievement • Tackles bottlenecks/backlogs in the system, and looks for ways to clear these quickly • Refers issues upwards quickly to get action • Constantly reassesses priorities to focus energy most productively • Consults external specialists to resolve problems outside own specialist area rapidly • Gets "all hands to the pumps" when dealing with priority, or "emergency" situations • Adopts flexible approach to work; is prepared to commit extra effort whenever necessary • Takes immediate action to rectify slippages	• Does not monitor progress against clear targets • Delays taking decisions until forced to do so • Avoids taking responsibility for own work and that of others • Turns immediately to others for help in resolving situations; does not persist in trying to resolve problems • Fails to respond immediately to slippages within the project • Delivers work that will need amendment or further effort later on • Pursues avenues of interest not set as priority • Repeatedly finds reasons why tasks could not be completed on time or to desired quality

Unit 2 — analysis and problem solving

Definition: Analysing information effectively and drawing sound conclusions

Anchor: Evaluates available information, reaching decisions based on key facts and practical solutions

Positive indicators — elements	Negative indicators
• Utilises past experience to make standard checks on the reliability of information • Gains as much information as possible from a variety of sources on which to base a decision • Always seeks out facts rather than make assumptions or guess • Considers trade-off of risk v gain when coming to conclusions • Bases decisions upon statutory codes of practice where they exist • Bases solutions on the objective facts, not subjective opinion • Considers full implications and benefits of recommendations for the Company • Devises objective business case to support recommended changes to procedures that have caused complaints and subjective criticism	• Takes information at face value; does not cross-check facts • Pays attention only to those facts that suit own position or preferred course of action or interpretation • Makes decisions based on subjective opinion, or hearsay; does not investigate the situation personally • Values speed of decision-making far above careful deliberation even when the time is available

Unit 3 — communicating and influencing

Definition: Achieving understanding or gaining acceptance of ideas and proposed action

Anchor: Prepares carefully, stressing the benefits to be gained and inspiring confidence in own views

Positive indicators — elements	Negative indicators
• Prepares facts in advance of meetings • Considers full impact of proposals before putting them forward for consideration • Talks in a positive manner to inspire confidence • Anticipates likely questions and prepares counter arguments • Keeps the message simple; states the facts and objectives • If unsure of the details, commits to finding out for the next meeting • Answers questions directly • Clarifies the needs of other parties in meetings • Persists in putting forward argument • Uses graphics in presentation where possible • Explains logic behind changes	• Delivers an unstructured argument • Makes up arguments when own case is questioned • Presents in a flat and monotone fashion • Gives way quickly when others raise counter-arguments • Loses interest if agreement isn't forthcoming • Uses jargon or technical terms others may not understand • Loses patience with those who do not appear to understand the argument put forward

Unit 4 — delivering results and quality

Definition: Getting the best from others

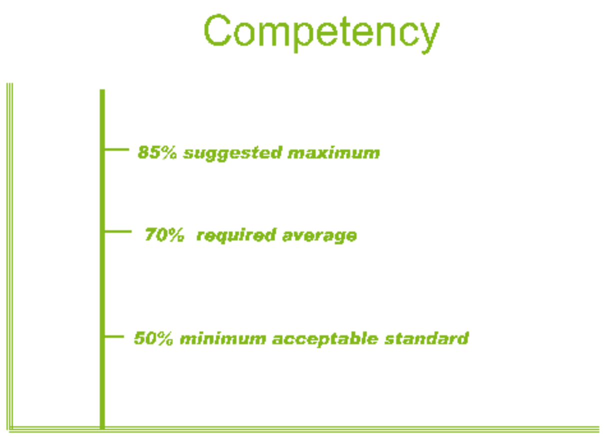
Anchor: Monitors team morale, provides feedback, support and encouragement to individuals on achieving objectives

Positive indicators — elements	Negative indicators
• Sets realistic but challenging goals by breaking down overall targets/objectives • Makes time available to staff to share expertise/knowledge • Conducts regular meetings to review individuals' performance • Conducts quarterly appraisal meetings that focus on development and potential for progression against objectives • Gives negative feedback in private; points out implications of approach taken • Conducts regular team meetings to communicate information/review team progress and team goals and to praise successes and build team spirit • Identifies training needs of staff and supports with training opportunities • Regulates workload of staff; does not over-burden them • Gives staff clear instructions as to what is required on tasks, and to what standard • Ensures team members are fully briefed on task plans and the background • Provides constructive feedback to help individuals overcome problems or improve their performance • Understands what motivates individual members of staff, eg pay, career progression • Makes it clear to staff which types of decisions they should/should not make	• Maintains distance from staff • Works on an "us" and "them" basis • Is destructive when giving staff negative feedback; uses authoritarian approach, is sarcastic or punitive in making comments • Does not communicate successes to the team • Does not make time available to staff • Fails to praise work well done; takes good performance of staff for granted • Expects others to be motivated as a matter of course; does not make active attempts to motivate the team • Adopts a controlling approach; does not encourage staff to take ownership of their work • Offers no support for personal development

Measuring competency levels and getting the best from training

What is the competitive advantage of this approach, eg focusing on measuring only units? First, we need to be realistic about setting organisational competency standards in line with the *key* competencies. In *Figure 3* below, the minimum competency standard is set at 50%. In other words, management should not recruit anyone below this minimum requirement. The company standard is shown at 70%. Any employee falling below that competency score should automatically get training. Once an employee reaches 70% (depending on the job) then he or she has reached the required employment standard. As 80% of all training will come from this data, training needs can now be automated. This will save time and, of course, cost.

Figure 3

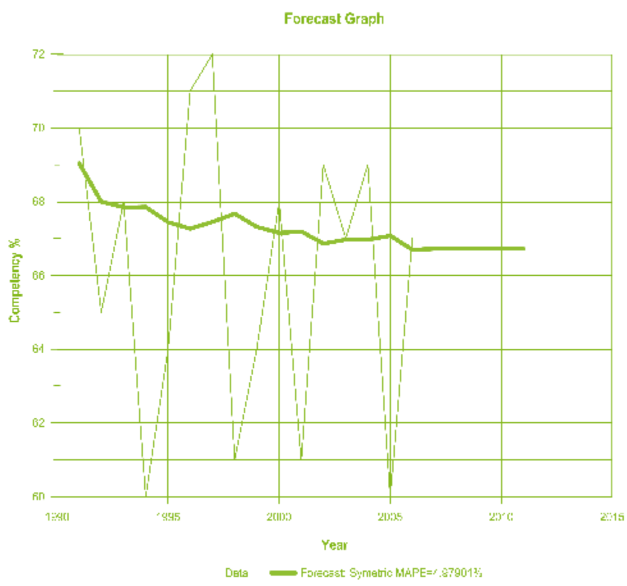


Collecting data based on this system allows you to use predictive software to determine if you need more or less training to meet company standards. Your training department can then provide courses keyed to match the competency unit identified.

Year	Competency (organisational) as a percentage	Year	Competency (organisational) as a percentage
1991	70	1999	64
1992	65	2000	68
1993	68	2001	61
1994	60	2002	69
1995	64	2003	67
1996	71	2004	69
1997	72	2005	60
1998	61	2006	67

In the example we used Vanguard Forecasting to see what the likely competency levels would be in the forthcoming years. The data can be from Excel or swiped and loaded into the program by using a copy and paste feature. These scores are produced from appraisal software such as that found at *www.appraisal-insights.com*.

Figure 4



As you can see in *Figure 4*, the scores show a competency level below the company standard, typical in situations where training is misdirected or an *ad hoc* approach to training was used. Either way, this company is wasting its training budget.

Key points about competencies:

- Competence guarantees quality, safety and conformance to standards. A lack of competency standards in organisations surely contributed to many of the financial failures in 2009.
- Measure what really matters — the units from *key* competencies only.
- Set up standards — minimum, company standard, and top end competency scores. This will clarify your organisation's competency levels, strengths and weaknesses. To make this a success you need to involve all of the senior managers to get not only their buy-in, but also a good understanding of how the competency system works.
- Recruitment processes will vastly benefit by incorporating a competence approach when conducting the interview.
- Training should be focused and measurable and structured specifically to a competency unit. This will also give the training a higher profile as it will be clear to all how closely training is targeted to the work competency and shortfall that has been identified.
- Training should guarantee competency improvement by percentage. This is a very new approach, but now possible and can be directly locked into getting return on investment (ROI).
- This approach reduces time spent on training needs analysis.

The financial measurement of competency improvement

From the previous section we now understand fully how competencies are structured and how we can pre-set competency standards at the unit level (this is the level where training and measurement takes place).

To do the necessary work we have to use two formulae in order to get some base data:

Formula 5 to calculate the unit cost necessary to distribute into competency value (in this software package).

Formula 5 needs something called PWD (prime working days) from Formula 12

First, let us calculate formula 12

Formula 12: Calculating prime working days (PWD)

Base number: Days in the year 365 — (Public Holidays 10 + weekends 104) = prime working days 261

Then we need Formula 5

Formula 5: Unit cost (SUC) for any employee per day (divide by 8 for hourly rate)

Part 1

$$\frac{\text{Total salary costs including all allowances x 2}}{\text{Total staff employed}} = X$$

Part 2

$$\frac{X}{\text{PWD}} = \text{SUC}$$

Now we have a useful unit cost of one employee per day — remember this is a unit cost and it is good enough for our calculations.

Do not panic at the maths, they only need to be done once and that will be good enough for our calculations and for what you need.

To recap we now have

- A yearly rate (our daily rate x PWD)
- Our minimum competency standard 50%
- Our maximum required competency standard 70%
- We now know we will measure units only and if we have five key competencies with four units to each competency we have a total of 20 units per person.

The competency unit/improvement calculation

For you to work out the individual point improvement the software will do the calculation for you. The calculation is arrived at by the following maths:

1. Points per person = 5 competencies x 4 units x 20 points
2. Unit value of points = 50% of SUC per annum

We have now calculated the value of a single percentage point that we can apply to any individual. This allows us to value any improvement in the competency point arrived at through coaching, training or experience.

Performance and how to measure it

Performance is raw output, essentially how much we do. Performance is measured in a number of ways including:

- speed
- time
- efficiency
- unit cost
- volume.

Companies which take their eyes off of this soon find themselves in real financial difficulty.

Competency + Performance = Productivity

As with the approach to competency, management needs to set minimum company standards, and top end figures for performance.(*Figure 5*).

Figure 5

As with competency (quality), no bonus or additional payments should be made for anything below required standards. In fact, if required performance is not achieved then, in principle, employees' basic salaries ought to be reduced. Check this out carefully as it may not be legally possible, although I think it is morally right. All of this highlights the need for thorough recruitment practices. Just look at how good Google is at this — and look at its bottom line performance figures.

You may be wondering why productivity is not at 100% on our chart. Well there are two very separate components that affect this. The first is TIME. In a 40-hour week no-one can work 40 hours; we have various breaks including a lunch break. So, at best, the working week will only be 32 hours of available time. This situation is worse if you look at the three categories of employees:

- High performers will work productively for those 32 hours each week
- Average performers for about 20 hours each week
- Poor performers for only about 5 hours each week.

> The data for hours worked was obtained from a large survey carried out in 2008/9 of over 100 large companies, mainly in the Middle East.
>
> Managers seem completely unaware of the difference between being at work and actually doing work. This is one of the biggest reasons why most companies are over-staffed by 15–20% and potentially higher in the public sector.
>
> Figures published in late 2009 by the UK Government showed that there were 50% too many people in the public sector and specifically in the public health service. It was reported by McKenzie Consulting in September 2009 that 1 in 10 employees in the health service could be dispensed with. In a survey of public sector employees in September 2009, 89% felt that budgets and public spending were managed inefficiently.

What performance is expected should be very clear in the contract of employment, although companies should seek legal counsel in this regard as employment law statutes vary geographically. Performance levels above those required should be locked into a bonus or reward system. If the original criteria are correctly set it should be difficult for employees to do more in the same time, since in theory they are working at their optimal level. So you will need to make the decision — bonus or overtime — but not both.

Performance expectations (above required performance) should be established during the performance appraisal and updated throughout the year. The well-tested SMART method is an excellent tool for this task and fits Peter Drucker's concept of management by objectives. In the SMART framework (see below) quality standards are clearly defined and managers can examine what, if any, additional competencies will be used at what level. Despite its simplicity, managers and supervisors often fail to use the SMART method, often because they do not understand it. Training them to learn and use this process will prove to be of great financial value to any company.

SMART objectives

What does your company, product or service hope to achieve? Once your requirements are planned, it is time to turn your attention to developing several goals that will enable you to be successful. Goals should be SMART. The setting of objectives focuses the entire company on specific aims over a specific period of time and motivates staff to stretch to meet those objectives. SMART is the simple acronym used to define and set these objectives :

1. Specific — clearly defined
2. Measurable — concrete enough to be observed and measured
3. Achievable — attainable
4. Realistic — achievable with the current resources
5. Time — from inception to completion

Managing (poor) performance

Drucker's managing by objectives (MBO) is a great first step in understanding how to set and measure performance through others. Managers need help with setting and managing performance. Often they are quick to make excuses for the failings of other employees so they do not have to take action that they personally find unpleasant. However, dealing with poor performance is something a manager should never put off. When you delay, you become part of the problem.

It is important to give up the notion that people will automatically improve or that performance/competency problems will sort themselves out. This generally does not happen in today's business world, therefore quick action that is helpful, effective and decisive is required.

Get into a productivity-focused mode as a state of mind, a way of thinking things through. Always surround yourself with good people and carry this process through in all your recruitment efforts. Harv Eker, author of *Secrets of a Millionaire Mind*, reminds us, quite appropriately that, "If you swim with the ducks, you can't expect to fly with the eagles."

How many people do you need in the organisation?

Not an easy question to answer but we have a couple of formulae that will give us a good guide.

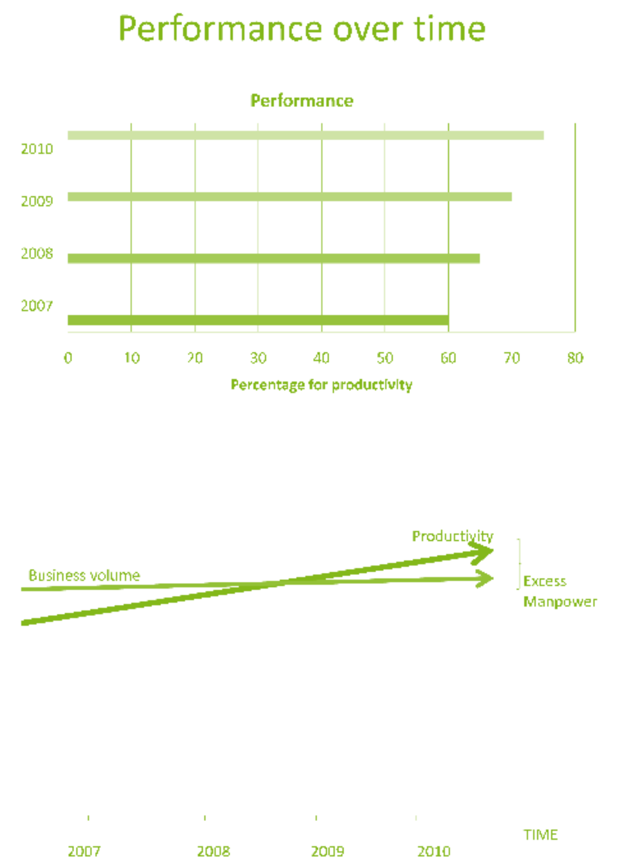
First, we need to establish PWD using Formula 12

We also need to know the current employee number (or average number employed over the last 12 months)

Then we can establish the "man" days that make the organisation run (Formula 10)

If we look at *Figure 6* it makes the issue easy to see and to act upon — any manpower planning department should be able to do this and once the chart has been produced come up with accurate staff prediction statistics.

Figure 6



Software to do this; *http://www.excelmaster.co.uk/index.htm*

The result of the calculations will allow you to produce a chart showing just how many people you need in the organisation and will help in preventing managers from overstaffing.

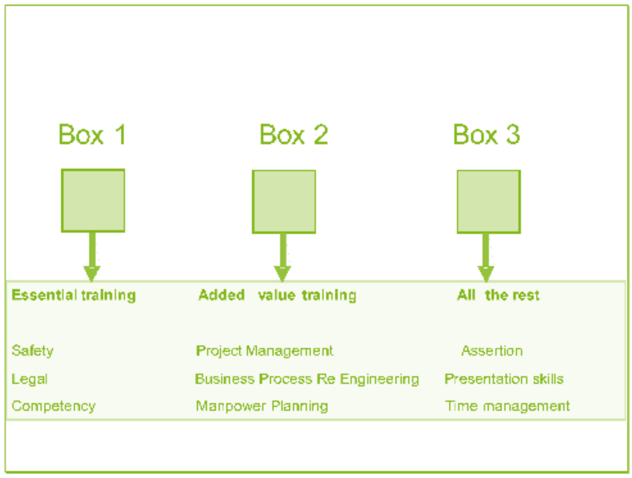
With quality (competency) standards and performance (volume) standards set, the next key element in the management of productivity is training.

Measuring the results of training in "real value" terms

Not all training adds value so how do you align training with improvements that are measurable and add value to your business? If you ask most training personnel if they would like their bonus to be based on the measurable, added value they produce, 99% would immediately turn pale and mumble something about training being impossible to value in dollar figures. , And you would see a similar response if you asked training personnel the question, "Before we run this training programme, will you give me your personal guarantee that competence or performance will measurably improve?"

The remedy is to focus only on what is important and will produce results. The Three Box System is particularly valuable in determining whether training is necessary (*Figure 7*).

Figure 7



The Three Box System is also helpful for budgeting and managing training when spending is restricted. To get the maximum benefit from training, here is how to use it.

Box 1 is for essential training, all the training that must be done to comply with safety and legal requirements and, of course, competencies. Competency training in this box is for *key* competencies only and would be needed to help employees to reach the company standard of 70% as previously discussed. The target for a training intervention in Box 1 must be done to the 70% standard.

Box 2 is the real challenge. This is training that will definitely produce added measurable value and is at the heart of serious productivity improvement and organisational efficiency.

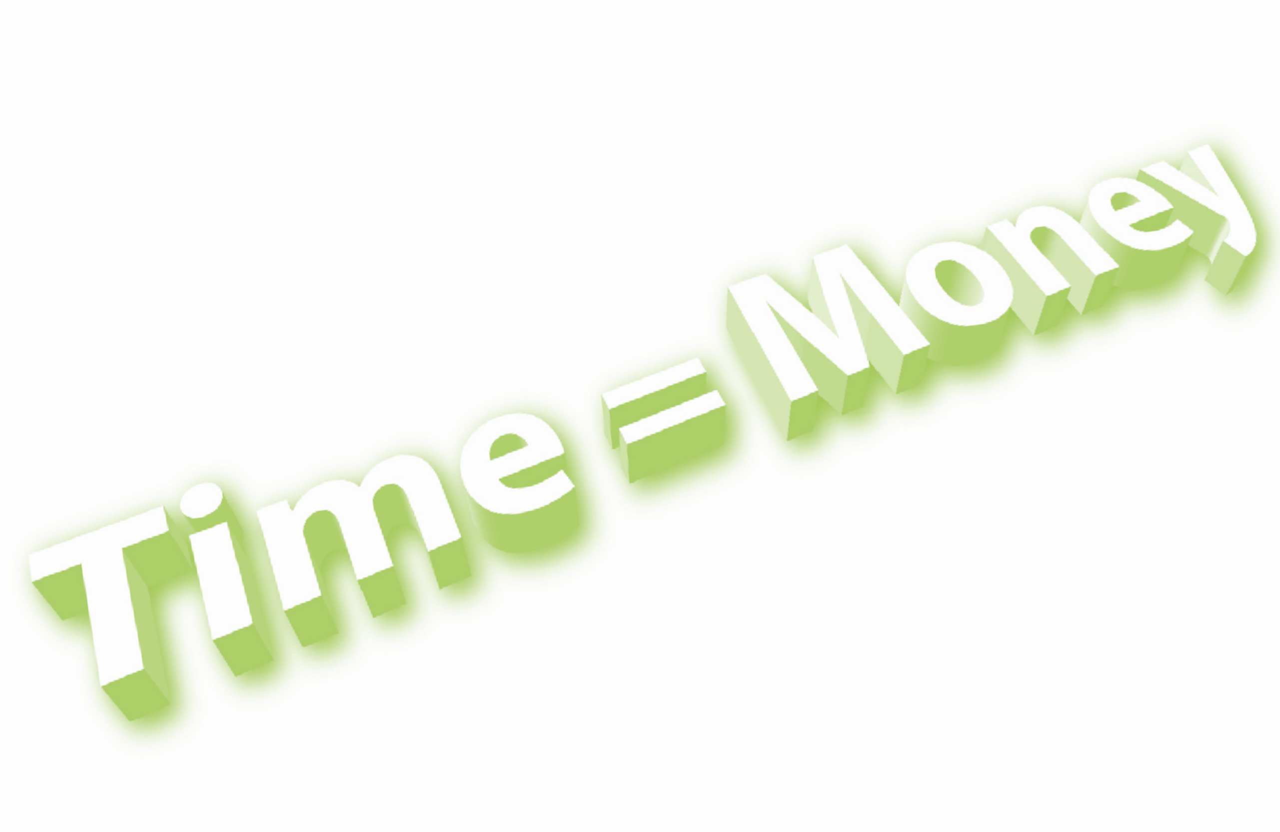
Take a look at the criteria for Box 2 training.

All training costs, including lost productivity, will be recovered in one year:

- The added value over and above the total cost of training will exceed 18% in one year
- The added value created by the training is business measurable and can be audited
- The results must be predicted and agreed upon before any training expense is incurred

Box 1: Essential training — Putting the focus on Box 1 training is one sure way to push up performance and efficiency. This is your performance toolbox and money spent on this type of training will fire up the burners big time. Measure the competency scores through performance appraisals. Look for an increase in the score after a training intervention. Use the software package that automates this entire process to save time and labour.

Box 2: Added value training — Direct the training department to ensure that the added value created each year is equal to, at least, the value of the total training



budget. It is essential to measure this precisely. Training departments need to be fully committed to training that increases productivity and organisational efficiency. Expect them to prove, annually, that they have added value to the business, specifically in terms of productivity. This will not be easy, and people may not like it, but it is so important that it cannot be ignored. I am very pro training but training must always be focused and structured so that training functions are transformed into profit centres. Your Training Department should embrace the following formula as its mantra:

BB – TCT (+18%) = MAV

Business benefit in one year – total cost of training (including lost productivity) + 18% = Minimum added value

Calculation for creating added value in training

Box 3: All the rest — Filled with training that people enjoy, but which provides little tangible business impact or benefit. Do not waste your time or money here. If you have to reduce training expenditure, this is the box to axe, and make sure someone is focusing on reducing the mass of stuff that ends up here. Remember that for every day you deliver ineffective training you are operating from a lose/lose premise, not only incurring training costs but also the costs of lost productivity time.

Much has been written about the learning organisation. The key benefit in making learning a life-long process is that it builds loyalty, helps employees to keep intellectually "fresh" and most importantly engages people with the business. The question we should be asking is if we can achieve greater employee commitment and engagement and at the same time ensure improved performance and productivity. By taking a purposeful, analytical approach to understanding performance and development requirements we can ensure our organisations and their employees achieve a "win-win".

Points to ponder

- How can you tell which parts of your organisation are under- or high-performing relative to others?
- To what extent are you able to establish the value added by any training and development activity?

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