

“COMPETENCY BASED COMPENSATION SYSTEM”

S. Monica¹, R. Sarvamangala²

Abstract

In Today's competitive Business environment, employees play's a major role, human resource management helps in bringing people and organization together to achieve their goals. Earlier organization was completely depended upon the financial aspects, but in present Business scenarios, the success of the organization depends upon the human resource, hence the organization should hire the competent employees. Basically this study is conceptual based system on competency based compensation system. The paper makes an attempt to tell how the competencies in the workplace help in compensating the employees. Employees should be compensated based on their performance and competencies "Compensated based on their performance is better than just compensating without considering their job". Compensating the employees by their performance motivate the employees much more to work towards the organization goal. Employees will get more attracted towards work and perform better to get compensated wherein it benefits the organization itself.

Keywords: Competencies, compensation, pay system.

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1. INTRODUCTION

Traditionally, the pay systems for most of the organizations have been based on jobs and job evaluation methods. It was based on relative worth of the job. The compensation was based on comparing the jobs to one another and assigning internally equitable pay rates for each job. Thus, the pay rate for job principally depends on job itself, not on who is doing it. This approach was appropriate in those days during which individuals had firm duties and no frequent changes were involved in way performing these jobs. In such cases, the jobs were usually well defined and individual was expected to perform only what was given. In fact there was no need for "thinking", but only for "action". Hence the incentive and compensation system focused on the "Job" and not on the "Action". But today the scenario is completely different. Now we do not have traditional jobs and individuals are often able to add considerable value because of their high levels of competencies, and it is very daring to pay them according job than their individual worth. ^[1]

Traditional system ignores value added by people and it fails to develop the right skills and knowledge. Now organizations need to design compensation plans that not only reward performance, but also to improve it. Compensation has become a strategic issue, and strategic compensation helps the organizations aiming on making them more competitive through improved future performance. Effective pay for performance requires two processes, compensation management, and Performance management. But the real challenge is how to integrate these two processes.

Compensation management cannot fully realize its potential without accurate assessment of employee which comes from a good performance management system. Similarly performance management cannot fully realize its potential without a well administered compensation system. Traditional compensation systems cannot bring in this integration and hence there is a need for designing a better system to meet this challenge. The new system must support the recruitment and retention of competent workforce who value team work, individual effort, hard work, meeting deadlines, quality, innovation, and flexibility. All these are inherent competencies of employees. ^[2] Developing an approach that pays individuals according to their market value requires a pay system which measures competencies of individuals and prices them in external market. This can help organizations in accomplishing two objectives. First it will have a positive effect in motivating individuals to learn the skills and knowledge to perform in their current role, and second, they will raise the pay of the individuals as they become more valuable in the external labour market. This helps in creating a learning organization. ^[3]

Experts also advocate that competency based compensation systems empower employees to take charge of their own development. By focusing on ideal performance rather than average performance, competencies can help employees maintain their marketability. Competencies are characteristics of a human being which are changed into inputs to a role performed by the individual which enables

an organization achieve its goals. Competencies can be divided into two parts: Functional and Behavioral competencies. Functional competencies are the basic competencies like knowledge and skill which are essential to the role at hand. They can be looked at as the minimum requirement needed to perform the role. Behavioral competencies are desirable competencies like attitude and personal characteristics which when present; enable a person to perform a role exceedingly well. Every individual carries a set of competencies with him or her to the workplace. The organization should ensure that the gap between “bringing to” and “using at” the workplace is bridged with regards to individual competencies. Thus competency based compensation system has gained importance in today’s perspective. [4]

2.COMPETENCY

Companies that use competency-based pay structures reward employees based on the skills, knowledge and experience they apply in the workplace rather than their job title or position. This approach is designed to motivate employees to become aspirational, build on their existing skills and apply these in their job. [5]

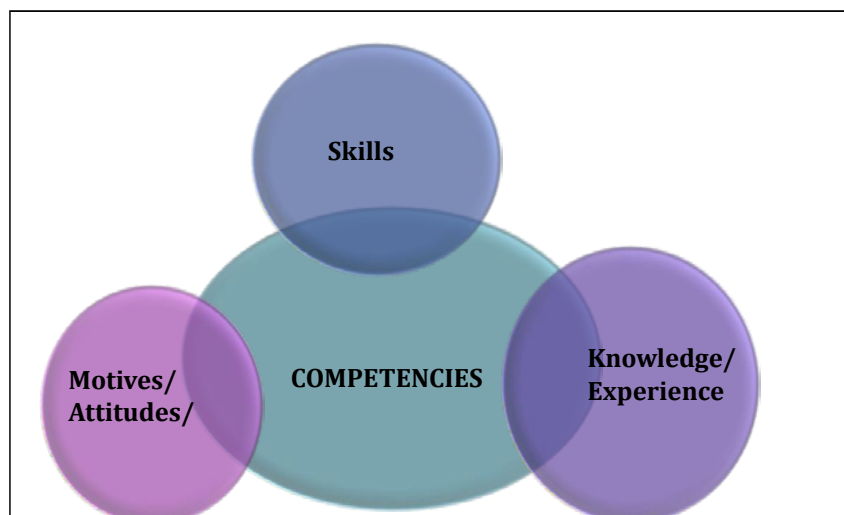
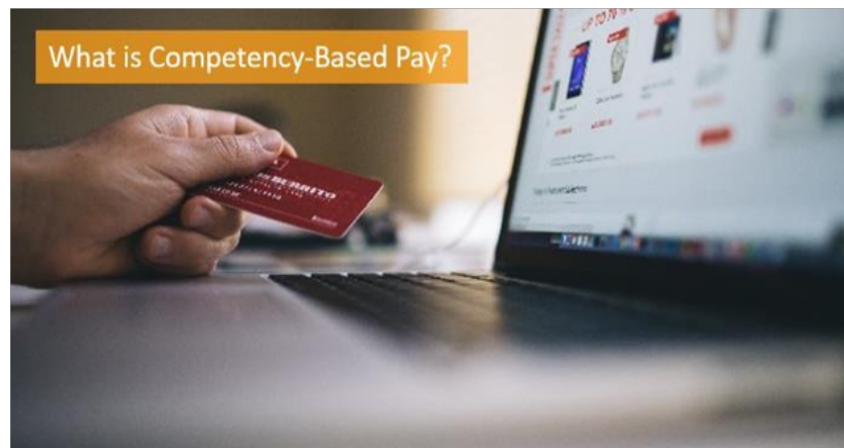
3.DEFINITIONS OF COMPETENCE/COMPETENCY

The term competency was brought into public arena in the USA in the early 1980s by Boytzis (1982). Boytzis

defined competency as ‘an underlying characteristic of an individual which is causally-related to effective or superior performance’. This definition is quite distinct from the way the term competence came to be used in the new suite of vocational qualifications introduced by the UK Government in the later 1980s. These awards National Vocational Qualifications(NVQs) are based on nationally determined occupational standards or competences and focus on the desired outcomes of work performance. So whilst one term (NVQ competence) was a label for the ability to perform the other (Boytzis’s competency) described the behavior needed to perform a role with competence.

4.COMPETENCY-BASED PAY

Whenever an employee is compensated in accordance with her or his type and level of obtained skills that are applied in the workplace, it’s known as competency-based pay. This salary structure differs from paying employees based on their term or seniority levels, and it is common in fields that require professionals who have specialized knowledge. Competency-based pay has the advantage of being simple to structure and utilizes readily accessible salary tables. One unique disadvantage of the salary structure is it can be difficult to alter during times of economic hardship. Competency-based pay might also be known as skills-based and knowledge-based pay.



Competency based pay system is very critical to all organizations and institutions; public and private. Competency-based pay system being offered in the public, which aims to produce capable workers who are responsive to customers' demands by providing quality services, one would expect that there would be improvement on productivity.

Retention of employees is essential for the success of the organization thus competency based pay is one of the methods of compensation which was introduced in National Micro Finance bank in order to attract and hold employees. In compensation one of the area of interest is competency based pay or skill based pay, this pay system has been developed already for decades and still is seen to be one of the most important trends in reward.

5. COMPETENCY-BASED PAY DEFINITION

'Competency-based pay can be defined as paying for the development and application of essential skills, behaviors and actions which support high levels of individual, team and organizational performance.'

Whenever an employee is an compensated in accordance with her or his type and level of obtained skills that are applied in the workplace, it's known as competency-based pay. This salary structure differs from paying employees based on their tenure or seniority levels, and is common in fields that require professionals who have specialized knowledge. Competency-based pay has the advantage of being simple to structure and utilizes readily accessible salary tables. One unique disadvantage of the salary structure is it can be difficult to alter during times of economic hardship. Competency-based pay might also be known as skills-based and knowledge-based pay.

6. REVIEW OF LITERATURE

Competency- Based Pay: Fiona Neathey and Peter Reilly, IES- The study provides in detail information about competency, competency based pay, how reward and competency pay is linked, the establishment of competency pay, how organization is benefited and problem and pitfalls have been discussed in the study.

Strategic Hr Technique With Special Reference To Coimbatore: S. Praveen* Karpagam University, Coimbatore
*Corresponding Author R. Karuppasamy Nehru Institute Of Technology- In the particular article the authors have described about the compensation based pay system. The factors influence the pay system and the techniques which they have used to compensate the employees. A best compensation system must based on 'pay for the person' which is based on the actual performance level exhibited by the employees.

Competency-Based Pay And the Service Quality: An Empirical Study Of Malaysian Public Organizations: Ilhaamie Abdul Ghani Azmi, Zainal Ariffin Ahmad And Yuserrie Zainuddin - A higher number of complaints have been filed by the public due to delays by public sectors in taking action and providing services to the public. This suggests that service quality is not being delivered as expected by customers. With competency-based pay being offered in the public sector under the System Saraan Malaysia (SSM), which aims to produce capable workers who are responsive to customers' demands by providing quality services, one would expect that there would be an improvement in the general quality of the services rendered. For the purpose

of finding what was the problem faced to the compensation the study was done. The SERVQUAL dimensions were found in the study how to improve the quality of service providing the compensation. The simple random sampling method is used for the analysis purpose. Where Questionnaire – A and Questionnaire – B is used with a sample of 300 copies and 3000 copies respectively. The study concludes by saying if the SERVQUAL technique is used better service quality is provided in terms of compensation system.

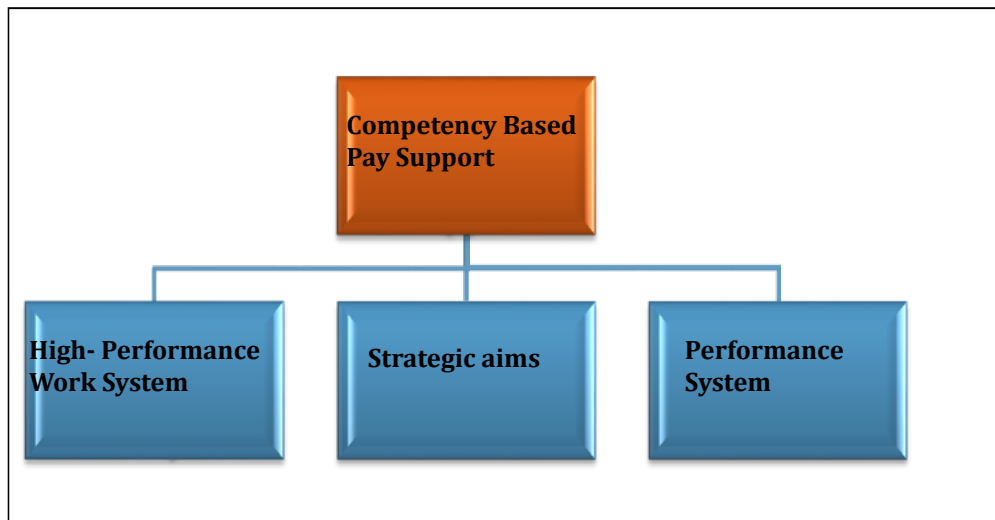
Competency Driven Remuneration And Performance Among It Professionals- A Study In Urban Segment : R. Nalini, R.Amudha, R.Alamelu, R. Gowri, S.Sai Sujana- The study enhances the understanding of connection between pay variable system and the satisfaction level of employees which in turn determines the employee performance on the job. For the analysis purpose 100 samples have been collected by different departments and statistical tools such as percentage analysis, Chi-Square, ANOVA, Correlation and multiple regression has been used. The study concludes that the employees must be guided properly about the vision and mission statement of the organization as it makes the employees to perform where well towards the organization and also organization can easily compensate by the performance done.

Assessment of Use of Competency Based Pay System in Enhancing Employees Productivity in State Corporations in Nakuru Town, Kenya: Zachary Gachuru, Josphat Kwasira- The study focused on the main problem in despite there was proper income to the government in terms of taxes and all the national treasure was good but also they were complaining as underperformance and was compensating at very low. So study is carried on with main objective as which factors is influence skill based pay on employee productivity in state corporations in Nakuru town. The study adopted a descriptive research design attempts to describe things as behavior, attitudes, values and characteristics. The correlation test, ANOVA test, multiple regression analysis is conducted. The study concludes the performance based pay has significant influence on employee productivity. The Nakuru government management of public organization should consider skill based pay, employee based pay and employee training as strategies.

7. OBJECTIVES OF THE STUDY

- To study and understand the concept of competency based compensation system.
- To know the advantages and disadvantages of competency based compensation system.
- To provide valuable suggestion for the betterment of the employee and the organization.

Why we use competency based pay?



8.Steps involved in Competency Based Compensation Systems

In Competency based compensation management system, employee compensation is based on an evaluation of the following pay factors:

- Agency business need;
- Duties and responsibilities;
- Performance;
- Work experience and education;
- Knowledge, skills, abilities and competencies;
- Training, certification and license;
- Internal salary alignment;
- Market availability;
- Salary reference data;
- Total compensation;
- Budget implications;
- Long term impact; and
- Current salary

9.Pros of competency based compensation system

1. Serves as a motivational tool: In various business verticals, the pay structure is determined by the years the employee has committed to the company or the industry. With a competency-based pay structure, the only thing standing between your employees and a greater wage is how much they fund and how well they perform. With this method they're often more likely to take greater initiative and contribute to your competitive advantage.
2. No Seniority Factor: For less experienced employees, a benefit of competency-based pay is that the level of seniority has little bearing on compensation. Instead, the emphasis is placed strictly on how well the employee performs in relation to competencies such as leadership skills or devotion to detail. This can reduce the feeling that the employee must "pay his dues" to receive higher compensation.
3. Incentive to Achieve: Competency-based pay plans may also result in increased incentive for the worker to become a high hard worker. She can focus on the attributes that are part of her evaluation process, with the understanding that if she does well in these areas, she will be rewarded accordingly.It reinforces a culture of self-improvement:

Once your culture has been established, it's more difficult to maneuver it in a different direction than setting the tempo a certain way in the first place. Don't let that discourage you however, as it is certainly not impossible to change its course. One way to create a culture of self-improvement and company-wide productivity is through a competency-based pay model. This pay structure offers a tangible prize for your employees who are dedicated to growing their skills and improving themselves. When your employees dedicate their time—even outside of the 40-hour week—to growing your products, services and organization, they will not only contribute to the success of the company, but also be motivated by the compensation they receive for their dedication.

4. It may improve staff retention: As described by the staff at CIO: "Employee retention is a critical issue facing today's enterprises as they compete for talent in a recovering economy. As Josh Bersin, principal at Deloitte and founder of Bersin by Deloitte, spells out, the costs of employee turnover are gradually high, as much as 1.5 to 2 times an employee's salary. There are also other, soft costs, such as lowered productivity and a decrease in employee morale. These all add up to big trouble for businesses that aren't investing in their human capital."While a pay structure alone is often not enough to retain your top talent, it certainly shouldn't be ignored. Since the competency-based pay model is still rare, your employees may be more motivated to stay with a company that rewards them for self-improvement and skill development, rather than seniority at the company or years of experience under their belts.
5. It encourages corporate transparency: Put simply, transparency is good for business. It creates trust between your employees and those at a higher-level. It improves employee engagement at its core and contributes to employee retention. The competency-based pay structure is clear-cut in the essence of transparency, since your employees know exactly what is expected of them to get a promotion.

10.DISADVANTAGES OF COMPETENCY BASED PAY

On the contrary to the benefits, there are certain cons

for competency based pay. Some disadvantages are:

1. **Subjectivity:** Because competency-based plans rate employees according to general criteria instead of specific accomplishments, a potential drawback is that they introduce subjectivity into the evaluation process. Concepts such as leadership and the ability to multitask are open to interpretation, resulting in the possibility of an inaccurate rating.
2. **Favoritism:** Another possible drawback to competency-based pay plans is that they can result in the perception of favoritism, according to Locate Staffing. If one worker perceives herself as more valuable than another but discovers that the other employee received a larger pay increase, she may draw the conclusion that she is being treated unfairly. Dissension can be an unwanted byproduct.
3. **Relationship of Competencies to Performance:** It can be difficult to establish which competencies actually result in improved job performance or productivity. For example, if your customer service representative increases the number of inquiries he handles in a day, is it because of an improved ability to multitask or increased attention to detail that helps him resolve issues more quickly?

CONCLUSION

Competency-based pay is a term used to refer to a wide range of different pay arrangements, some of which are effectively skills based pay and others that are individual performance-related pay by another name. Through this conceptual study researcher is able to provide valuable suggestion for the betterment of employees in the organization to focus on systems that link individual reward to the demonstrated use of competencies, either as the main source of pay progression, or, more commonly, combined with other forms of pay determination. The present study also identifies the advantages and disadvantages of competency based compensation system .To conclude competency based compensation system is an important tool for the success of the organization.

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