Competency-Based Compensation

[Name of the Student:]

[Name of the Institution:]

Abstract

Competency-based compensation system has become the need of current business environments. Certain flaws and drawbacks have been observed consistently in traditional compensation systems. A shift has been geared toward adopting automated competency-based pay systems. Various studies have yielded useful results that give insight into the competency-based systems. Companies first have to develop measurement standards and tests to evaluate employees' competencies and performances. They can further employ several techniques to assess competencies, including the underlying competencies of workers that cannot be measured by normal competency tests. The HR of a company must interview individuals to assess these underlying competencies. In a study conducted in two phases, individuals were tested for trust repair by offering them varied sizes of compensation. It was revealed that compensation improves competency-based violations, but have little effect on integrity-based compensation. The need for competency-based compensation systems is evident by the researches done on the subject. The implementation of new compensation systems requires relevant changes in the recruitment processes of organizations. Competency-based pay system can meet the challenges of developed as well as underdeveloped economic systems.

Competency-Based Compensation

Compensation, in HRM, refers to the salary, wages, or incentives that are given to a person in recognition of the services rendered by him or her, given a specific period or calculated amount of work done. There are many different strategies and schemes that companies use to pay compensation to their employees. Different theories or ideologies back these strategic decisions regarding compensation. Theorists give certain justifications or evidence in support of one of the compensation strategies or the other. This paper explores the traditional way of making compensation plans, points out the difficulties faced in those plans, and evaluate the competency-based compensation plan as possibly be the better alternative to solve related problems.

**Discussion**

**Traditional Compensation Method**

The traditional compensation method has been used by organizations worldwide for a long time and is still employed by a large number of companies, especially by the government organizations. People have trusted and supported this evaluation method, and have been satisfied with it. This method sets the wages or salary for new hires based on their prior experience, qualification, and level of seniority. Every organization has usually developed their pay-scale, and they evaluate an individual’s portfolio of work experience on a set criteria. Based on this evaluation, they make an estimate of that person’s worth against a specific job, and appoints him or her to work with the relevant pay as per the pay-scale. Later, they have another set of rules and practices that make it easier for them to decide on increments, deductions, incentives, promotion, or other related things. The increments are usually backed by certain reasons such as an employee gets promoted and that person must be given an increment. Another employee may improve him- or her-self in caliber, practice, or skills, and an increment in salary becomes an obligation for the company.

The traditional compensation system has a flow in its procedures and processes, however, it is quite slow, and it has fixed time constraints involved. Employees feel safe and secure in a traditional compensation system. A considerable number of workers, on the contrary, have issues with the traditional way of compensation. As the factors affecting the compensation preferences of a person have evolved or changed with time, many workers prefer to work on different terms. People's values and lifestyles have evolved with time. They have got more conscious about what life offers to them. They are found to be more actively responding to the demands of life in a fast-paced environment of modern-day. People have now increased the number of activities available for spending their valuable time. They opt for more healthful engagements so that they could be able to enjoy life to the fullest extent. Employees are increasingly becoming more efficient and productive than before. They are, therefore, demanding higher compensation against their work. The traditional compensation system has certain limits that restrict the growth in compensation package after a certain period and cannot comply with the new challenges of this age. Most significantly, people need to achieve a work-life balance in their life so that they can be able to give their families ample time after their daily scheduled work. These are a few reasons why employees demand a new approach to compensation that is capable to understand their needs and wants regarding their work schedule.

**Competency-based Compensation**

A competency-based compensation structure considers the knowledge, skills, expertise, and experience of a person relevant to a job available, and assigns him or her salary and/or incentives as per these observed factors. This method is flexible and allows both the management and the employees to make smart decisions for their benefits (Zaim, 2007). Employees can search among several options and choose the best. On the other side, organizations can also evaluate the employees’ performance to regularly monitor their efficiency.

Companies are inclined to transform their compensation programs from traditional to competency-based. They are on their way to develop a corporate success formula for structuring jobs and managing people. Companies are being decentralized, teamwork is being encouraged, and employees are being urged to look for more flexible ways for improving their schedule. Again, new questions are being raised before the organizations. They have to be clear about what kinds of employees they need, what work guidelines should be followed by employees, and what motivational materials should be administered among the employees.

Competency-based compensation approach should be adopted by the companies that are in a change process and they need a new system for rewarding their employees. The companies that are involved in total quality management, offer a large number of jobs based on their increased number of operations, or focus on team-based tasks should shift from traditional to competency-based compensation systems. To pay employees as per their competencies demand the assessment of employees based on competencies. It has been observed that professionals with apparently similar qualification and experience perform differently in the same situations. Experts say that there are certain underlying competencies such as achievement drive or flexibility that determine the degree of success. These underlying competencies can be assessed by interviewing the individuals and knowing their particular fields of interest (Cofsky, 1993). For instance, a person is questioned about a few aspects of his or her aptitude for a particular profession. The interviewer should ask some questions to know that person’s response. If the response comprises answers that reflect that the person is willing to handle problems arising at work, takes interest in minute details of tasks assigned, or shows professional concerns regarding the related issues, then the person is a fit for the job considered. The characteristics of the underlying behavior of a professional include motives for work, personal traits, self-concept, skill set, and knowledge of the particular field of work.

The companies assess competencies of employees based on their performances, and employees perform at two distinguished levels: competencies at standard market levels and competencies exhibited that surpass market criteria. The companies have to implement certain systems for successfully managing competency-based compensation. They require a system for evaluating roles and measuring jobs. They need essential market data that could be used as reference points to set the desired pay levels. They have to install automated systems for salary administration that are sufficiently flexible so that all the variables involved could be tracked easily. The companies also need highly specialized systems for performance measurement that not only provide a hierarchy of competencies, but also provide relevant reports and informative insights into the worker's capabilities. Experts have devised a 360-degree process to evaluate the performance of individual workers. They have proposed also a peer review process for performance evaluation that is more suitable for teams' evaluations.

In a study conducted to assess the impact of financial compensation on buying the trust of employees, it has been revealed that money cannot do anything it is supposed to achieve. The study undertook two different cases of violations: competency-based and integrity based. The variables involved in this study were violation type, compensation size, and trust repair. Two scenarios were used in conducting the study that was made at Ghent University (Haesevoets, Folmer, & Van Hiel, 2015). First, the participants were asked to imagine and respond to a scenario wherein a perpetrator offers varied compensations (zero, equal, or double) to a person having been inflicted with different types of (competency-based or integrity-based) violations. Second, the experimental tests were made in a controlled laboratory environment to know if the results of the first scenario could be cross-validated or not. It was found that increased compensation has a positive impact on competency-based transgressions. However, the integrity-based transgressions could not be mended with increased compensation.

**Conclusion**

Compensation is the basic motivation of most employees to work and give their best on a job. Compensation methods evolve with time, and people demand different evaluation ways to get paid in the modern age. Companies assess employees' competencies using market standards, developing specific measurement tools, and employing good HR personnel to conduct interviews. Competency-based compensation has proved to improve employees' commitment, satisfaction, and performance but has little effect on repairing trust based on integrity.

Works Cited

Cofsky, K. M. (1993). Critical keys to competency-based pay. *Compensation & Benefits Review*, *25*(6), 46–52.

Haesevoets, T., Folmer, C. R., & Van Hiel, A. (2015). Is trust for sale? The effectiveness of financial compensation for repairing competence-versus integrity-based trust violations. *PloS One*, *10*(12), e0145952.

Zaim, H. (2007). Competency-Based Pay, A New Approach to Compensation Policy. *Akademik Araştırmalar Dergisi*, *9*(32), 115–133.