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**COMPETENCIES: THE RIGHT  
FOUNDATION FOR THE NEW PAY?**

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It is a bit premature to declare job-based pay systems obsolete. It is not too early, however, to note that they are well on their way to being replaced by person-based pay. I believe we recently entered phase two of the move from job-based pay to person-based pay. Phase one began in the late 1960s when “Greenfield” new plants began using skill-based pay in order to pay their production employees. The key features of these plants are well known as is their success, so I will not discuss them here. It is worth noting, however, what the research on these plants and their pay systems has shown about paying the person instead of the job.

1. Paying for skills is an effective approach to determining the base pay of individuals.
2. Skill-based pay seems to fit particularly well in team-based environments which require individuals to learn multiple skills.
3. Skill-based pay systems are relatively complex to develop and require a good understanding of the organization’s management style and the tasks that need to be performed.
4. Skill-based pay systems are relatively high maintenance because they require continuous updating as the technology of an organization changes and as individuals change their ability to perform tasks.
5. Individuals generally like skill-based pay systems better than they like job-based pay systems, at least in part because they end up feeling in greater control of their pay and they end up making more money.
6. Skill-based pay systems have their greatest impact during the first few years they are in place because during this time period, they lead to tremendous increases in the skills of individuals.
7. Because they don’t pay for on-going performance, skill-based pay systems are often best combined with pay-for-performance systems that reward team, group, or plant performance.

8. It is critical to pay individuals only for those skills that they are willing to perform and that the organization determines it needs them to have.
9. Skill-based pay systems are effective only when reliable and valid measures can be developed of a person's ability to perform key tasks.
10. Skill-based pay systems are most successful when they involve those who will be affected by them in their design.

Although the skill-based pay systems used in manufacturing plants are usually seen as successful, in most cases, they have not led to person-based pay for non-production employees. Plant after plant that I studied has had a person- or skill-based pay plan in place for its production employees, but a traditional job evaluation plan in place for the rest of the employees in the organization. I have long argued that this is an undesirable inconsistency because it creates a "seam" in the organization between production employees and others and because it misses the opportunity to apply a very successful pay approach to non-manufacturing employees. However, except for a few pioneers such as Polaroid, until recently, most organizations have not tried to develop person-based pay systems for other than production employees. This situation now seems to be changing. Hence, my earlier statement that we are now in phase two of the evolution of person-based pay. When phase two is over, I expect to see widespread use of person-based pay throughout most large organizations.

Phase two is likely to last ten or more years and I expect it to be marked by the successful development of organization-wide person-based pay systems. But before it can be successful, there needs to be a great deal of research and development done on how to pay the person in non-manufacturing jobs. The person-based pay approaches that I have seen some organizations use so far

gives me considerable concern about the types of person-based approaches which are being developed in order to pay managers and technical experts.

Most person-based pay systems for exempt employees start with the premise that, particularly in knowledge work situations, there are tremendous potential gains to be had from paying the person rather than the job. Gains are said to include a better strategic focus and competitive advantages that come from superior organizational capabilities and competencies. It is hard to argue with this point but it fails to answer the key question, how do you pay the person? That is, what characteristics of the person do you focus on in order to determine their market value and their value to the organization? These, of course, are the two things that any pay system needs to focus on. Market value is critical in attracting and retaining individuals and what a person can do is critical to how they can be used by the organization and whether they are worth what the market says their value is.

Increasingly organizations are choosing to use competency models in order to determine what to pay an individual. Not surprisingly, there is general agreement that the more competent individuals should be paid more highly than less competent individuals. The challenge is to convert the idea of competencies into measurable characteristics of individuals that allow for the reliable and valid determination of pay rates. This is where many of the competency models that I have seen fall short.

As a recent article by Zingheim, Ledford and Schuster (1996) points out, the list of competencies developed by Hay/McBer has been widely adopted by organizations who are using competency-based pay. The result is that many of them end up with the same set of competencies, hardly a way to gain a competitive advantage. My problem with this approach is not just with the fact that it is bland and not a strategic differentiator. It is more fundamental and begins with its definition of competency. According to Spencer and Spencer (1993) in the McBer approach, a competency is an

underlying characteristic of an individual that is causally related to effective and superior performance in a job. They go on to add that “underlying characteristic” means that the competency is a fairly deep and enduring part of a person’s personality.

Spencer and Spencer provide a dictionary of competencies that includes leadership, adaptability, innovation, team orientation, communication, customer focus, achievement orientation and flexibility. For each of these competencies, they provide scales that describe different levels of competency. They also present an iceberg model which shows competencies as below the water line and as a result are hard to see and measure. It shows knowledge and skills above the surface and therefore more measurable. They go on to briefly mention the point that individuals should be rewarded for the development of competencies by “merit pay for skill.” This raises an obvious point. Given that organizational effectiveness is about task performance, why try to measure and pay for something which is below the surface and, as a result, difficult to measure and relate to actual task performance. Is it not likely to be more effective for pay purposes to focus on what is most easily measurable and directly related to organizational effectiveness, that is task performance related knowledge and skills.

In a recent article, Hofrischter and Douglas (1996) argue that Hay Group research has shown that in complex jobs, competencies are more likely to determine success than skills or knowledge. But they go on then to say that competencies represent a set of skills and knowledge, abilities, behavior characteristics and other attributes that predict superior performance. I don’t know about you, but I find this all very confusing and perhaps somewhat of an exercise in semantic obfuscation.

At times, it sounds like competencies are actually nothing more than skills and knowledge and hence, there is a direct parallel between paying for them and what is done in the skill-based pay systems that are used with production employees. At other times, however, particularly in the writings of

Spencer and Spencer, it appears that paying for competencies is much more about trying to measure and pay for the personality traits of individuals. If the latter is true, then I have a major problem with the idea of paying for competencies.

I was studying performance appraisal and pay systems in the 1960s and 1970s when it was very popular to rate individuals on traits like leadership, cooperation and reliability and to use these ratings as a basis for determining merit pay. Thus, I am all too aware of the many measurement problems with this approach. Unfortunately, some organizations still do use trait rating scales as part of their performance appraisal process. They ask managers to rate individuals on innovation, dependability, communication skills, etc. in order to determine whether they should get a favorable merit review and a “merit” pay increase.

Some organizations have made the trait rating approach a bit more sophisticated by adding descriptive anchors to different points on rating scales (instead of just using high/low or good/bad), but in my mind, this does not address the fundamental problem. Rating individuals on traits is an extremely subjective process and a great deal of research over the years has shown that it tends to lead to unfair, invalid and discriminatory outcomes. It was for this very reason that during the 1960s numerous studies were highly critical of the use of personality tests for selection purposes and of trait-based performance appraisal forms. As the result of legislation and numerous court cases, specific standards have developed concerning the validation of tests and what should be contained in a performance appraisal form. These standards particularly emphasize the importance of measuring only the job behaviors of an individual that are related to successful task performance. This brings us back to what has been found in studies of skill-based pay in plants.

Skill-based pay plans work best when they are tied to an individual's ability to perform a particular task and when there are good measures available of how well an individual can perform a task. When these are available, then, and only then, can effective skill-based pay systems be developed. This critical point is neglected in competency-based systems which pay for generic personality traits that are not clearly related to task performance.

I do not intend to completely dismiss the use of competencies in human resources management. If indeed a competency is a basis for successful task performance because it is related to the development of the skills and knowledge that are needed to perform the task, then measuring it may be helpful as a way of determining who should be assigned to a particular job. At that point the person may not be able to perform the task they will be assigned, so it is important to look at predictors of future performance. However, this use of competencies does not mean that they should be the basis for pay once an individual has started performing a job.

What we learned with person-based pay in manufacturing organizations is that you should pay individuals for what they can do that is related to task performance not for their "potential". Once an individual has performed a job, their task related skills and knowledge can be determined. At this point, I believe they, not underlying competencies, are the most useful basis for setting pay, because they most directly determine what work an individual can do, which incidentally is likely to be the key determinant of their market value.

The idea of paying only for the ability to perform a task is considerably easier to apply in production jobs than it is in many managerial and knowledge work situations. It is easier because the tasks are often simpler to define and there is a more limited set of them than there is in managerial and knowledge work situations. This is undoubtedly one of the main reasons why it has taken so long for

the approach of paying the person to move off the shop floor into the office. Despite the fact that specifying the skills and knowledge needed to do work can be complex and difficult, I don't believe it is either acceptable or desirable to rely on generic competencies that are hard to measure, subject to bias, and not necessarily related to successful task performance in a particular work assignment or work role.

What is needed in order to pay the person in most knowledge work jobs is a person description that includes a specific description of what the person needs to be able to do. A person description needs to include a specification of the job-related task or tasks the individual should be able to perform and what performance or mastery level of them is required. This description needs to be used as the basis for determining whether individuals have the necessary work related skills.

For example, instead of saying the person needs to have communication skills, the person description needs to specify exactly what kind of communication tasks the individual needs to engage in as well as what level of performance on each of these tasks represents an acceptable level of mastery. It should establish measures that distinguish between successful and unsuccessful task mastery so that individuals can be certified as having the necessary communication skills. These same measures may, of course, be useful in measuring the ongoing job performance of individuals. But that is not what we are talking about here; in a person description, the focus is on what a person can do.

Admittedly, creating person descriptions that specify what tasks a person needs to be able to perform and how task performance mastery can be measured is likely to be considerably more work than simply picking competencies from a dictionary. But, I believe it is the only effective way to pay the person in knowledge work situations. The alternative of pay for underlying competencies is likely to produce invalid measurements, discriminatory decision making and ultimately, the downfall of the idea of paying the person rather than paying the job.

It is critical that organizations get on with the challenging work that is involved in specifying what they expect people to be able to do and how well they expect them to be able to do it. *Only* if they are able to do this, can they reasonably expect to create high performance organizations that provide a competitive advantage. I believe that the lessons from skill-based pay on the shop floor are clear in this respect. They work best when individuals are paid on the basis of their willingness and ability to perform specific tasks that are critical to organizational effectiveness. This golden rule of person-based pay, I believe, is as applicable in offices as it is on the shop floor.

## References

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