

Competency Based Compensation System

As a strategic HR Technique with special reference to Coimbatore

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Abstract—Competency management is an important strategic area of organizations and it will have an impact on employer's ability to attract applicants, retain employees, and ensure optimal levels of performance from employees in meeting the organization's strategic objectives. Organizations must reward employees because they are in turn looking for certain kinds of behaviour; they need competent employees who agree to work with high level of performance, loyalty and commitment. Individual employees expect in return for their contribution to the organization, rewards in the form of a good compensation which satisfies them. A good compensation system thus helps an organization to achieve its objectives and satisfy its employees and motivate them to excel in their roles. The traditional compensation systems which are used over years are based on "Paying for the job", which mainly focuses on the job or the grade or designation, but not based on the individual who performs the job. Thus this system fails to differentiate between different individuals whose performance levels may vary. It fails to recognize better performers and motivate them to retain their high performance standards. A good compensation system must be based on "Pay for the person", which can be based on actual performance levels exhibited by the employees. Competency based compensation can help the organizations to determine compensation on the basis of actual performance levels through the process measuring the actual competencies exhibited by the individuals while performing their jobs. This system can be used design the compensation on the basis of person's capabilities and experience and by taking into account the market demand for unique skills and experience. Competency based system can also help in designing a fair and equitable system through an objective evaluation of competencies which contributes for an individual's performance. This paper focuses on development of a competency based compensation system. The paper discusses how a competency based model can be developed in organization which can be used for designing a competency based compensation system. This paper is based on the author's experience in developing a competency model with few organizations and its applications.

Index Terms—Competency, competency mapping.

I. INTRODUCTION

Compensation management is one of the most important functions in any organization and compensation has been an

extremely important issue for both, employer and employee. This is because money is directly or indirectly related to relate to fulfillment of all human needs. Compensation directly influences key outcomes like job satisfaction, talent attraction, retention, performance, skill acquisition, co-operation etc. Thus we need to design best compensation system to align employee performance with organizational objectives. In this changing business scenario we have to continuously look for better compensation management systems and redesign the existing system.

Competency based compensation system is one which can satisfy the current scenario of performance linked pay in which employees are paid on the basis of actual performance.

II. MEANING OF COMPETENCIES

A competency is an underlying characteristic of a person/organization which enables to deliver performance in a given job, role or a situation¹. Thus the performance of an organization or an individual will depend on the relevant competencies they possess and higher the level of competencies, superior will be the performance. Competencies allow focus process—"How things are done?" not simply on outcomes.

III. CLASSIFICATION OF COMPETENCIES

The Competencies can be broadly classified into three categories namely organizational competencies, job related competencies and personal competencies.

Organizational competencies are unique factors that make an organization competitive. According to C.K. Prahalad and Hamel who wrote the famous book "Competing in the future", organizational competencies- a) Provide potential access to a wide variety of markets b) Make a significant contribution to perceived customer benefits of the end product c) Are difficult for competitors to imitate² Organizations need to focus their efforts in the area of their competencies and strengthen them and outsource the other activities. This is very important as