A Guide to Developing a Competency-Based Performance-Management System

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A competency-based performance-management system is a formalized way of establishing the skills and behaviors that employees need to be successful in their present roles and for future growth in their organizations. It is a way of informing employees of company expectations, and it sets them on a clearly defined path toward achieving specified goals. A competency-based performance-management system provides the framework for aligning employees' job performance with the organization's goals. Essentially, goals—both for individual employees and the organization—become the key to individual and organizational success.

Within this framework, it is imperative that management first define the organization's long- and short-term goals and then determine the skills and behaviors that every employee in the organization should demonstrate to achieve those goals. It is just as important to determine the specific skills and behaviors that are expected from each functional group of employees such as finance and accounting, sales and marketing, supply chain, operations, and human resources. Finally, individual goals for senior leaders should also be established, and they should cover multiyear timeframes.

This model allows employees to realize their key strengths, skills, and behaviors, in addition to those that they need to develop. They will also understand how their strengths complement those of other employees and why that is important to achieving individual and collective success. By utilizing the strengths of individuals and teaching them to work cohesively, you will then be able to focus on developing the skills and behaviors employees need to be successful in your marketplace. A number of organizations have attempted to build competency-based programs that require all employees to be strong in all skills. Such a program is likely to fail because it simply does not reflect the reality that all people do not have the same skills and interests.

Fundamentally, all people will be expected to have certain core competencies and behaviors, and certain roles will be expected to have specific skills and expertise. However, by recognizing individual differences and strengths while at the same time teaching employees interdependence, alignment, and the ability to work cohesively, the collective output will be much greater than that of individuals working independently.

Another benefit of establishing a competency-based performance-management system is that the organization delineates the performance criteria for each level so that employees know what competencies must be mastered in order to be considered for advancement. Companies that establish a competency-based performance-management system will be able to more easily manage

their talent pool, perform succession planning, and build bench strength for the future. Additionally, it will create a basis for recognition and reward, merit increases, and promotions.

ESSENTIAL ELEMENTS

Following are the key elements that should be considered in designing and implementing a competency-based performance-management system.

Establish Competencies

Employers must specify the cultural and organizational competencies that they want their employees to demonstrate. For example, integrity, professionalism, accountability, quality, results focus, and profitability are traits that may be considered representative of an organization's *culture.* Employers should select three to five *cultural competencies,* define each, and list the behaviors or actions that employ-

ees must demonstrate to achieve success for each competency. **Exhibit 1** illustrates this process for three cultural competencies: integrity, professionalism, and quality.

Employers must also select the organizational competencies, that is, the specific skills that employees are expected to demonstrate at each respective level as well as the skills that must be mastered for them to be considered for promotion to the next level. These competencies should be arranged in categories such as Customer/Client Service, Business Development, Technical Competency, and Personal and People Development. See **Exhibits 2** and **3**, which outline organizational competencies that are needed for employees to succeed in the positions of program manager and consultant, respectively.

Set Goals and Performance Expectations

Two to five goals should be selected that are within the scope of an employee's responsibility and will result in the greatest possible

Cultural Competencies for All Organizational Levels

Integrity	*Professionalism*	*Quality*
Defining characteristics: Is genuine, candid, and open	*Defining characteristics:* Is conscientious and efficient in meeting commitments and achieving goals	*Defining characteristics:* Seeks to achieve the highest quality of service, products, and deliverables
Behavioral criteria: ❏ Delivers on promises and honors commitments ❏ Maintains high standards of honesty and business ethics ❏ Inspires trust and serves as a model to others	*Behavioral criteria:* ❏ Exhibits exceptional diplomatic skills ❏ Listens more than talks ❏ Respects the opinions of customers and coworkers ❏ Presents himself or herself and our business in the most positive fashion	*Behavioral criteria:* ❏ Ensures that effective controls are developed to maintain quality ❏ Is committed to continuous improvement ❏ Makes extra effort to ensure client satisfaction ❏ Consistently delivers the highest quality of service

Exhibit 1. *Cultural Competencies*

People		Clients		Knowledge
Personal Development	*Managing the Business*	*Client Service*	*Business Development*	*Technical Competence*

Performance Criteria of the Incumbent

Personal Development	Managing the Business	Client Service	Business Development	Technical Competence

❏ Encourages upward feedback
❏ Effectively communicates within the organization
❏ Fosters environment of continuous improvement
❏ Creates high morale
❏ Sets high standards for personal conduct and work
❏ Serves as role model for others
❏ Acquires new knowledge and skills in specialty area
❏ Utilizes broad functional skills such as finance and accounting, operations, business development, and information technology to help manage their clients and organization
❏ Must possess a bachelor's degree, at minimum
	❏ Provides coaching and guidance to team members
	❏ Demonstrates successful track record in recruiting and developing staff
	❏ Supports training initiatives
	  —Ensures staff are available to get the training for professional and career development
	  — Ensures all staff attends training each fiscal year
	❏ Demonstrates fiscal responsibility by managing company investments, expenses, receivables, and other costs over a sustained period
	❏ Ensures personal and team compliance with policies and procedures
	❏ Demonstrates understanding of and is able to use internal management systems [list key ones here] to manage the business
		❏ Anticipates and reacts to client needs
		❏ Inspires excellence in reliable delivery, methodology, and operations
		❏ Develops strong client relations with senior-level clients and wins client confidence
		❏ Takes responsibility for client/contract matters
		❏ Manages engagements or projects with strict cost control and delivers designated results
		❏ Successfully manages all billing activities to ensure collection within [x] days
		❏ Meets or exceeds professional business standards
			❏ Creates new business opportunities and leads the development of major proposals
			❏ Positively represents the company to many different clients
			❏ Recognizes and supports end-to-end solution growth opportunities across all markets
			❏ Has a specific practice focus and develops sustainability in the marketplace
			❏ Positions company to obtain referrals
			❏ Manages engagements and projects for a client or group of clients
				❏ Develops and leads initiatives to improve the company's image
				❏ Implements company strategy across teams
				❏ Regularly seeks and contributes expertise/insight into practice area to other members of the practice team, and consulting
				❏ Facilitates exchange of ideas and application of best practices

Performance Criteria Necessary for Advancement to Vice President

Personal Development	Managing the Business	Client Service	Business Development	Technical Competence

❏ Recognized and accepted as a leader in the business
❏ Supports high-performing, positive team environment
	❏ Demonstrates ability to recruit and mentor management group members
	❏ Maintains high personal and group chargeability
	  — Personal [x% of time]
	  — Group [x% of time]
	❏ Manages engagements or projects to consistently achieve practice financial revenue and profit objectives (include $ or %)
		❏ Consistently meets or exceeds client expectations as demonstrated by receiving follow-on work
		❏ Manages [$M] annually
		❏ Demonstrates ability to plan and execute complex engagements or projects
		❏ Demonstrates ability to act as trusted advisor to senior executives in client organizations
			❏ Leads development of [$M] in sales
			❏ Participates in team sales of at least [$M]
			❏ Demonstrates the ability to grow personal/team revenues
				❏ Recognized internally and externally for knowledge and expertise in field
				❏ Demonstrates examples of knowledge sharing outside engagement setting

Exhibit 2. Program Manager: Organizational Competencies by Level

People		**Clients**		**Knowledge**
Personal Development	*Managing The Business*	*Client Service*	*Business Development*	*Technical Competence*

Performance Criteria of the Incumbent

❏ Takes responsibility for own developmental needs ❏ Effectively communicates within the organization ❏ Demonstrates a commitment to acquiring new capabilities ❏ Solicits performance feedback from colleagues and reviewers, acting on areas for development ❏ Continually improves knowledge and skill proficiency ❏ Must possess a bachelor's degree, at minimum	❏ Delivers services on engagements or projects to achieve practice revenue, profit, and cost-control objectives ❏ Continually seeks ways to enhance contribution to the team ❏ Supports training initiatives by attending a minimum of [# hours] training hours per fiscal year ❏ Ensures personal compliance with policies and procedures	❏ Maintains expected levels of personal productivity and chargeability ❏ Understands the fundamentals of the client's business ❏ Demonstrates ability to interact with clients ❏ Meets professional business standards	❏ Identifies potential add-on work and supports proposal development ❏ Develops client relationship skills for purpose of developing new business ❏ Supported proposal preparation for a new engagement	❏ Understands the strategy within business sector ❏ Able to research and retrieve information needed to better serve clients ❏ Builds strong competency in use of technology ❏ Demonstrates knowledge of agency/industry and solutions

Performance Criteria Necessary for Advancement to Senior Consultant

❏ Maintains high morale ❏ Works well with others	❏ Participates in/ contributes positively to work/team environment ❏ Maintains high personal chargeability [x% of time]	❏ Demonstrates high level of commitment to client success ❏ Delivers timely and quality services that meet or exceed team manager's and client's expectations ❏ Demonstrates ability to support engagement or project leaders ❏ Strong track record for reliable delivery	❏ Understands organization's products and services ❏ Contributes to development of [$K] in new work for an existing or new client	❏ Demonstrates ability to research subjects to support engagement work ❏ Documents and presents sound work products

Exhibit 3. *Consultant: Organizational Competencies by Level*

benefit to the organization. Leaders should provide the goals of the senior leaders of the organization and their own goals to direct reports. Leaders should also provide their direct reports with goal areas to focus on developing, but they should require their direct reports to develop their goals, submit them in writing, and get every employee's goals signed by a member of senior management. The senior management review/signature step is crucial to ensuring alignment and buy-in. Although this step can be time-consuming, it is a key component. I have seen organizations miss this important step, and although they got off to a fast start, they ultimately failed and did not achieve the organizational goals.

Goals should align from the top down and from the bottom up so that collectively the results of functional and individual goals will equal or exceed the organization's goals. For example, the revenue goals set for the individual sales representatives should equal or exceed the revenue goals set for the sales department, and the goals set for all departments should equal or exceed the revenue goals for the entire organization. This is commonly referred to as the balanced-scorecard approach to goal setting, that is, each employee's goals are in alignment with each other and the overall goals of the organization.

To record the goals, I recommend using a simple form, which should be signed by the employees and reviewed and signed by their supervisors and at least one member of senior management. Ensure that the employee provides a written update at each quarterly or semiannual review and the supervisor reviews, comments on, and signs the document. I strongly suggest that a member of senior management review and sign

the quarterly/semiannual reviews; this is an important process step to ensure individual and organizational goals are attained.

I also recommend against including goals in the performance document. Goals are often included in bonus plans, but the timing for budgeting and allocating merit awards is most often different from the timing for budgets for bonus programs. By keeping the goal document separate from the performance document, you provide clarity to intervals

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and organizations and avoid a significant amount of confusion.

Monitor Performance and Feedback

There are many performance-monitoring and feedback processes, but you must select one that is tied to the competencies and provide ongoing guidance, measurement, and feedback. This sounds so fundamental but is often the weakest link of this process. The worst possible way to administer a performance-monitoring and feedback process is to do a once-a-year goal-setting process and then provide no feedback until delivering the year-end appraisal. Additionally, the secret to a successful performance-monitoring and feedback process is to make this a regular part of the dialogue between the leader and their direct reports. Daily, weekly, and monthly informal ongoing dialogue supplemented by a formal quarterly or, at minimum, a semiannual, process works. The formal quarterly or semiannual discussions are both quantitative and qualitative and provide the employee with the

necessary feedback to ensure that they are on track, focusing on the right things, and have the right tools, training, and support to attain their goals. Collectively, this is very powerful. Senior executives can truly have a mechanism that keeps them informed and updated and allows them to know whether people are working on the right things and whether goals for the organization will be attained. Such a process gives them an important check and balance to determine the accuracy of sales and financial projections (see **Exhibit 4**).

Complete Employee Profile and Development Plan

The employee profile should summarize the skills, experience, education, major accomplishments, significant positions held, and strengths and development areas for each employee. Additionally, this profile will be a road map for employees' ultimate career goals, both in terms of the positions that they aspire to and the skills, experiences, positions, and time frame that are needed to get there. A fundamental component of successful companies is ongoing, regular quantitative and qualitative feedback between leaders and their direct reports. The senior executive team should review and be regularly updated on this process. Leadership team members need to be able to see in a snapshot whether they have the right people in the right roles for the corporation to be successful. They need to be able to see where the gaps are in terms of skills or aspirations (see **Exhibit 5**).

I worked with a major corporation in which a number of individuals aspired to senior technology and engineering positions but few aspired to senior operations people

leadership roles. The leadership of this corporation saw the shortage of operations leadership in the developmental pipeline but did not spend the time to get at the root of the problem to solve it. As a result, the company's stock price and earnings are only a fraction of what they were just a few short years ago. The company simply does not have the leadership to inspire and drive results. After many years of organizational goals being attained, the present shortage of capable leaders caused the company to fall far short of its goals, and analysts are not optimistic about its future financial outlook. By establishing a competency-based performance process, and with development plans and profiles in place, you will have the tools to get the right people in the right roles working on the right things.

Begin Succession Planning/Talent Management

There is a direct tie to competency-base performance systems and succession planning. Once the competency-based performance management system is in place, senior leadership will know what skills and specific actions they need to take in order to exceed their goals by determining organizational needs, identifying succession candidates, and targeting skill gaps and shortfalls in talent in the organization. They will be able to develop action plans to close these skill gaps and build future leadership bench strength. Leaders will be able to identify development assignments, stretch goals, and regularly assess readiness of succession candidates for key roles in the organization. In this way, the leaders can manage and develop their talent and focus on behavior

Name	Title	Review Period

Project Performance
Summarize project scope and performance. The review period may include multiple projects. Feedback is provided at mid-year and year-end.

OBSERVATIONS

Demonstration of Cultural Competencies
Describe how this person has demonstrated proficiency against each of the Cultural Competencies.

COMPETENCY & RATING	OBSERVATIONS
Integrity	
Professionalism	
Quality	

Demonstration of Organizational Competencies (People - Clients – Knowledge)
Describe how this person has demonstrated proficiency against each of the Organizational Competencies. Use the rating scale below.

COMPETENCY & RATING	OBSERVATIONS
Overall Proficiency:	

Rating Scale

3 = Above Level	**2 = At Level**	**1 = Below Level**

Reviewer's Summary

Identify overall key strengths and areas for improvement:

Employee's Comments

Reviewer Signature:_____ **Date:**   **Employee Signature:**_____

Executive Signature 2:_____**Date:**
(Mandatory for matrix reporting relationship)

Date:

Exhibit 4. *Performance Management and Feedback Form*

Name	
Current Position	
Business Unit	
Location/Country	
Manager's Name	
Manager's Title	
Education Level	
Languages	
Years in Job	
Years of Service	
Key Career Positions Held	
Key Accomplishments & Special Skills	

Organizational Competency Self-Assessment

Personal Development		**Managing the Business**	
Client Management		**Business Development**	
Technical Competence			

Employee Comments/Self-Assessment Narrative:

Evaluate above competencies using these guidelines:

Rating Scale	**1 = Below Level**	**2 = At level**	**3 = Above level**	

Professional Development Plan

    I.   Choose up to three items in each skills area to focus on developing over the course of the review period. Goals for professional development serve to either enhance or create broader and deeper skills that make you more effective in your current role or prepare you to assume new roles within the organization.

Goal Setting-Competency and Skill Development			
Functional Depth	*Technical Skills*	*Agency/Industry Expertise*	*Management*
a)	a)	a)	a)
b)	b)	b)	b)
c)	c)	c)	c)
Functional Depth Experiences, knowledge, or certifications that build credibility as a professional in broad business functions such as information technology, procurement, finance, operations, etc.	*Technical Skills* Skills related to specific technologies or technical aspects of broader functional areas, such as Java programming, teleconferencing and networking, foreign languages, etc.	*Agency/Industry Expertise* Specific governmental agency or industry expertise, such as USDA, Department of the Navy, Telecommunications, High Tech, etc.	*Management* Leadership Cost Management Profitability Market Share Customer Retention

(continued)

Date Goal Setting Complete:

II.   Indicate progress toward achieving the above professional development goals using the scale below. Include narrative to describe specific actions.

Progress Review			
Functional Depth	*Technical Skills*	*Agency/Industry Expertise*	*Management Skills*
a)	a)	a)	a)
b)	b)	b)	b)
c)	c)	c)	c)
1 = Complete	2 = In progress	3 = No action	

Date Progress Reviewed:

Reviewer's Comments:

Reviewer   Executive Reviewer

Signature and Date   Signature and Date

Exhibit 5. *Individual Profile, Self-Assessment, and Professional Development Plan Form*

and skill development collectively and individually to fill critical roles and attain key organizational goals.

Competency-based-performance systems also tie directly to recruitment and selection. Leaders will be able to determine what skills, experience, and behavior that they need to select in a candidate both for immediate needs and for the long-term success of the company. The competency-based process will also give you clear insight as to when you must go outside the organization to acquire talent. The competency-based performance-management system is the building block needed to manage, develop, and acquire talent.

CONCLUSION

The competency-based systems work in most any type of organization—large or small, and for-profit or not-for-profit organizations. One can literally feel the difference in organizations where such a program has been implemented; employees are enthusiastic, focused, energized, and clear about what they are working on and how their efforts contribute to the overall goals of the organization. With a little planning and vision to develop and implement such a process in your organization, in just a short while you will see the difference in energy levels, contribution, and business results.

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