

Proposed Title: Competency Based Compensation System- As a strategic HR

Technique

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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

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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 fulfilment 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.

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.

Classification of competencies

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 these competencies are fundamental to the success of the organization. Some of the examples for organizational competencies include Sony-miniaturization, Phillips-optical media, Honda-engines, and Intel-microchip.

Job related competencies are those competencies which are required for performing a specific job. These are the competencies some one must demonstrate to be effective in his job/role, task or duty. Thus these competencies are job or role

specific and vary from job to job. A competency model can be used to develop specific job related competencies and come out with a competency dictionary. These competencies are organization specific as roles and responsibilities may vary from organization to organization even though the job title may be the same. Job related competencies may become the criteria for most of the HR functions like selection, Training and development, performance appraisal, compensation etc.

Personal competencies are aspects of an individual they include the abilities of individuals to perform the activities within an occupation or function to the standard expected in employment. It includes the various behavioural competencies apart from the knowledge and skill level of an individual. These competencies includes-

- a. Personal competencies like developing oneself, taking initiative, delivering results, showing commitment, and adaptability.
- b. Interpersonal competencies like influencing, relationship building, advising, team orientation, service orientation, cultural awareness, communication, and openness.
- c. Information oriented competencies like strategic thinking, business understanding, conceptualizing, innovation, processing, analyzing and comprehending.
- d. People management competencies like leadership, directing, building teams, facilitating performance, motivating, guiding people, and transferring knowledge.

Competencies can also be classified in to Threshold and differentiating competencies.³ Threshold competencies are those competencies which a job holder needs in order to perform the job effectively. However these competencies do not distinguish the average performer from a superior performer. It is the differentiating competencies which are present only in superior performers which makes them excel in their respective roles or jobs and bring out outstanding performance. For example knowledge about manufacturing process, tools, equipments etc is the threshold competency and quality orientation is the differentiating competency.

Competency based compensation System and its need

Understanding the factors underlying successful adaption of compensation can assist organizations in the optimal use of rewards in meeting organizational objectives. Like most of the management practices even the compensation systems have undergone tremendous change in organizations. As organizations become flatter, smaller, more diverse, more flexible and participative they need compensation systems which can suit the new organizational structures⁵.

Historically, the pay systems of 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 it⁶. This approach was appropriate in those days during which individuals had stable 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. There was in

fact, 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 dangerous to pay them according job than their individual worth. 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 focusing 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.

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 organization⁷. Experts also advocate that competency based compensation systems empower employees to take charge of their own development. By focusing on optimum performance rather than average performance, competencies can help employees maintain their marketability⁸. Competencies generally reflect sustained contributions to an employee’s work, the incremental growth of enduring knowledge, behaviours, and skills

Steps in Developing a Competency Based Compensation System

1. Developing a Competency model
2. Competency Mapping
3. Linking Competencies to Compensating factors
4. Designing compensation on the basis of actual competencies

Developing a competency model

The basic need for a competency based compensation management is a competency model. A competency model is one which identifies the various competencies required for performing a job and describing these competencies in the form of indicators, which can be quantified. Each competency can be quantified on a scale on the basis of its relative importance with respect to each job. This serves as a

reference for all competency management activities in the organization. Competency model is organization specific as each organization may have its own way of defining and quantifying competencies and competencies may be unique for each organization. We have been working with few organizations on issues related to competency management and this paper is based on the experience in developing the competency model and its applications. We adopted following procedure to develop standard competencies.⁴

1. We started with job/role analysis to identify the competencies require to perform the job. Job descriptions and job specifications can throw a light on competency requirements for satisfactory performance of the duties and responsibilities, which are listed in them. If these are not available then job analysis is to be carried out. This gives us the preliminary list of job specific competencies.
2. Job holders and immediate superiors may have better understanding of the jobs and thus they can easily identify the critical competencies. Thus we gathered further information with discussions and brainstorming sessions involving them. This helped us in refining the list of preliminary competencies developed in the first step.
3. The third step is to validate these competencies and develop a standard competency dictionary. Validation can be done by different ways like opinion survey or interviewing experts in the related areas, critical incident techniques which can highlight the competencies exhibited in these incidents by the employees or a conducting a study on few consistent superior performers in the organization. We selected few superior performers who were performing consistently well in the past and referred to the appraisals of those employees. It was found that most of them exhibited these competencies regularly in their day to day activities. When performance appraisal data is not available we can gather data through behavioral event interviews and also information from superiors who have closely observed the competencies of the subordinates whose performance levels are consistently high.
4. Through the above steps we can gather sufficient information all the competencies for each specific job and each competency is validated. Thus the fourth step is consolidating these competencies in to a standard competency dictionary. This dictionary defines all competencies and their indicators for each specific job.
5. The last step in the model is rating the each competency based on its relative importance. We rated each competency on a scale 1 to 5 based on its contribution to the job performance. This rating is done by immediate superiors and experts in the job related areas.

These competencies are subject to change over a period of time depending on the changes in the technology, methods of work, organizational structure, roles and responsibilities etc. Therefore there is a need for regular review of competencies as and when required. In fact in the current dynamic and uncertain business environment, where changes are taking place so fast the shelf life of competencies is becoming very less and any competency can become obsolete with organizational changes.

This competency dictionary becomes the reference for all human resource management functions of the organization.

Competency Mapping

Once the dictionary is ready, then the actual mapping process needs to be carried out. To do the mapping, the following steps were followed by us in mapping out competencies:

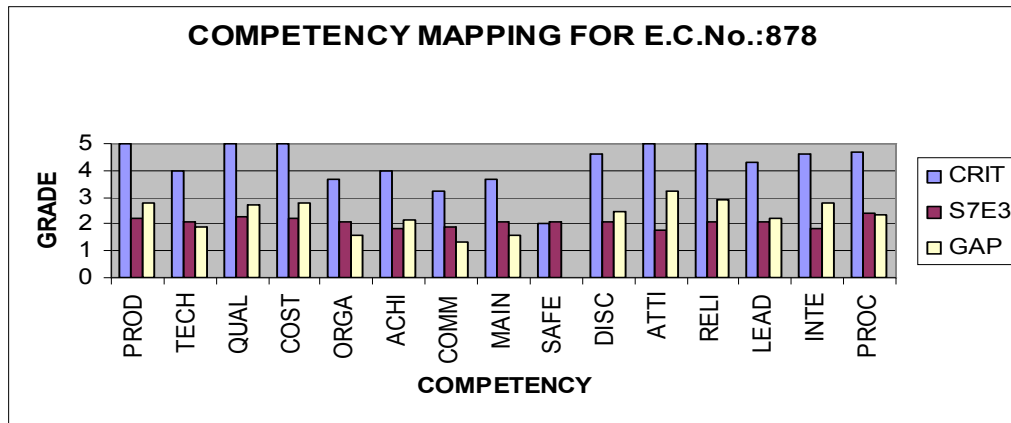
1. A structured questionnaire was designed for the employee and his immediate superior. The same questionnaire is administered to both for getting the rating.
2. The employee whose competency is to be mapped is asked to rate his/her own competency level in the questionnaire.
3. The immediate superiors ratings of the employee are also collected in the same way.
4. A weighted average of the ratings is computed to get the final score. 70% weight was given to the superior's rating and 30% to the employee's self-rating. The weights actually could vary depending on the level of bias reduction that needs to be done. (We would discuss how bias can be reduced in the system in another paper! Hence left it out here!!)

It may be noted here that a peer rating component could also be introduced in order to make the process less biased. The ratings thus computed can then be used to link the competencies to any other HR system. In this case we would use it to link the compensation system to competencies. The following are the ratings for one employee and a gap analysis to highlight the use of competency

Table – 1: Gap Analysis using competency mapping

	CRIT	EMP	GAP
PROD	5	2.24	2.76
TECH	4	2.1	1.9
QUAL	5	2.31	2.69
COST	5	2.24	2.76
ORGA	3.7	2.1	1.6
ACHI	4	1.82	2.18
COMM	3.2	1.89	1.31
MAIN	3.7	2.1	1.6
SAFE	2	2.1	
DISC	4.6	2.1	2.5
ATTI	5	1.75	3.25
RELI	5	2.1	2.9
LEAD	4.3	2.1	2.2
INTE	4.6	1.82	2.78
PROC	4.7	2.38	2.32

Chart – 1: Bar Graph showing the Gaps pertaining to employee 878



Linking the Competencies to Compensation Factors

The next step in the competency based compensation model is to link the compensation to competency mapping ratings of the employee. This is done so by computing the “Compensation Factor” which is defined as the weighted average of the competency ratings an employee has obtained. This compensation factor can then be used to design compensation strategies according to the organization’s compensation policy. It can also be used to fine tune the policy and adjust for internal and external equities which are explored in the sections given below. Further computations and adjustments might be required to the compensation factor depending on situations, which will be explained as and when those situations are taken up for discussion.

This model makes free and extensive use of Matrix Algebra for two reasons. First, this offers a convenient notation for representing iterative computations that have to be repeated several times. Second, the Matrix Algebra is absolutely necessary since we deal in groups of employees together, while maintaining individual identity. But, it must be noted that all the computations can be done using “spreadsheet” software such as Excel, which will not only automate the process but also save the burden of understanding Matrix Algebra. The illustrations will make these points more clear.

Computing the Compensation Factor “F”:

Let us assume that for a given level of employees “m” competencies have been identified.

Let x_p , where $p = 1$ to m represent the average criticality ratings of each of the competencies identified. Let the matrix C , of the order $1 \times m$, represent the row vector of criticality ratings of competencies.

Let y_{ij} , where $i = 1$ to m and $j = 1$ to n , “m” is the number of competencies and “n” is the number of employees, represent the competence rating exhibited by jth employee on ith competence. Let the matrix R , of the order $m \times n$, represent the vector of employee ratings on each competency where “m” is the number of

competencies and “n” is the number of employees. Since competencies vary across organizational units like departments or hierarchical levels, the number “n” typically represents the number of employees in a given unit.

Let $\sum C_p$ where $p = 1$ to m represent the sum of the criticality ratings.

Let the matrix F of the order $1 \times n$ represent the row vector of each employee’s compensation factor.

Then we can say that

$$F_{1 \times n} = (1/\sum C_p) * C_{1 \times m} * R_{m \times n} \text{ ----- (1)}$$

The above equation actually gives out the compensation factors, which are the weighted average of the employees ratings. The row vector F can now be used to design the compensation packages of the employees of the unit and/or the hierarchical level. The next section uses this model to demonstrate how various compensation packages can be designed using the compensation factor vector.

Designing Compensation Packages:

The compensation models vary across organizations. Two typical cases are very frequent. First is the case where the organization makes changes to the “Basic” salary component of the employee. Next is the case where the organization does not change the basic frequently, but has an “Incentive” component to reward performances of employees which are highly satisfactory. Below we explore both the cases sufficiently and provide illustrations with the help of live data wherever necessary. It must be noted that while the competency mapping data is live, several assumptions and adjustments have been made to the compensation data, to keep the Non-Disclosure Agreement sacred.

Case – 1: Using the compensation factor for determining the raise in the “Basic” component of an employee compensation package

Many organizations to fix up a “Pay Scale” which comprises of a Basic Salary component. Most other components that make up the scale are expressed as a percentage of this Basic Salary component. Components such as DA and HRA are usually expressed as percentage of the Basic component. These percentages are fixed either in alignment with existing regulation or in alignment with market rates. Usually, the pay increases are expressed as “Increments” to the Basic component. Any incentive in such organizations has to be given as an increment to the basic component. The challenge in “Pay for performance” systems is to determine the quantum of increment to be given to employees. The simplest of the forms is to “fix” the increment size and determine the “number of increments” to employees based on performance. The compensation factor vector computed above can be used to compute either the “total increment” or to fix up the number of increments to be given in case of a “fixed increment” scheme.

A small note here about the nature of the numbers in F is relevant here. The elements of the matrix F are dependent on the scale used to measure the criticality

ratings. For instance if the criticality ratings are done on a scale of 1 to 5 then elements of F will be ranging between 1 to 5. On the other hand if the rating is done on a scale of 1 to 10 then the elements of F will be ranging between 1 and 10. In fact the maximum value of an element in the matrix F can be determined by using the following formula.

$$(\sum C_p^2) / (\sum C_p) \text{-----} (2)$$

We can see from the above formula that the compensation factor will always be less than the upper bound of the rating scale. Assuming that the rating scale above 10 is rarely used, the compensation factor of an employee multiplied by 10 can be used as a percentage value by which the “total increment” of a given employee can be calculated.

Illustration:

Compensation Factors for “Body Section Employees”:

As said earlier, the first step is to compute the compensation factors for the employees of a selected unit. The following tables computes the compensation factors for the body section employees.

Table - 2: Compensation Factor Computation

COMP	CR	ER1	WR1	ER2	WR2	ER3	WR3	ER4	WR4	ER5	WR5
PROD	5	2.24	11.2	3.46	17.3	2.9	14.5	3.61	18.05	2.83	14.15
TECH	4	2.1	10.5	3.39	16.95	3.55	17.75	3.76	18.8	3.39	16.95
QUAL	5	2.31	11.55	3.31	16.55	2.58	12.9	3.3	16.5	2.31	11.55
COST	5	2.24	11.2	3.6	18	2.85	14.25	3.65	18.25	2.74	13.7
ORGA	3.7	2.1	10.5	3.09	15.45	3.25	16.25	3.15	15.75	3.01	15.05
ACHI	4	1.82	9.1	3.28	16.4	2.94	14.7	2.82	14.1	3.18	15.9
COMM	3.2	1.89	9.45	3.15	15.75	2.76	13.8	3.8	19	2.66	13.3
MAIN	3.7	2.1	10.5	3.16	15.8	2.85	14.25	3.3	16.5	2.7	13.5
SAFE	2	2.1	10.5	3.51	17.55	3.7	18.5	3.09	15.45	3.36	16.8
DISC	4.6	2.1	10.5	3.46	17.3	3.2	16	3.18	15.9	3.46	17.3
ATTI	5	1.75	8.75	3.74	18.7	3.41	17.05	3.71	18.55	3.6	18
RELI	5	2.1	10.5	3.51	17.55	2.88	14.4	3.3	16.5	3.6	18
LEAD	4.3	2.1	10.5	3.3	16.5	3.09	15.45	3.51	17.55	2.69	13.45
INTE	4.6	1.82	9.1	3.9	19.5	3.09	15.45	3.6	18	3.39	16.95
PROC	4.7	2.38	11.9	3.61	18.05	3.12	15.6	3.48	17.4	3.47	17.35
C _p	63.8	F	2.441		4.034		3.618		4.017		3.636

CR = Criticality Rating, ER = Employee Rating, WR = Weighted Rating(CR * ER), F = Compensation Factor (Summation(CR*ER)/ C_p)

Table – 3: Basic Determination based on percentage increment on basic

Employee Number	BASIC	F	F*10	INCR	NEW BASIC
E1	8500	2.44	24.41	2075	10575
E2	8000	4.03	40.34	3227	11227
E3	8500	3.62	36.18	3075	11575
E4	8500	4.02	40.17	3414	11914
E5	8500	3.64	36.36	3091	11591

The above data clearly shows how the F values maintain the internal parity and reward performance. Compare the first and second employees. E1 has a higher basic salary compared to E2. But E2's performance has been almost one and a half time better than E1. The new basic reflects the performance difference. The second important observation to be made is how the compensation factor aligns paycales to reflect performances. All high performers have crossed the eleven thousand mark and the one low performer has been left behind.

If the organization has a "Fixed" increment value, and administers incentives by determining the number of increments given to employees, the compensation factor can be used to determine the amount of increment. Instead of multiplying F by 10 we can multiply F by the fixed increment value to determine the total increment from basic as shown below. We can notice that the same observations related to internal parity as made earlier hold good here too.

Table – 4: Basic Determination based on fixed increment value

Employee Number	BASIC	F	F*Inc (Inc = 500)	NEW BASIC
E1	8500	2.44	1221	9721
E2	8000	4.03	2017	10017
E3	8500	3.62	1809	10309
E4	8500	4.02	2009	10509
E5	8500	3.64	1818	10318

Limitations of the case and Alternatives

Limitation-1

A limitation of the above mentioned model is that, there would be varying basics as per the employee performance ratings. It makes the compensation model complicated and might require automation (read computerisation) to manage it effectively.

Alternative-1: Grouping to reduce complexity

In order to reduce the complexity of the model, an alternative method might be followed. The employees might be grouped into various classes based on the performance ratings and a common percentage increment can be applied to the entire group. For instance, class intervals might be identified as 1 – 1.99, 2 to 2.99, 3 – 3.99, ... , etc., and employees maybe classified based on their compensation factors into these intervals. Each group can then be administered a common compensation policy. Though this method brings down complexity significantly, determining how much percentage of increment to be given becomes more subjective.

Limitation - 2

Another limitation is that the above model doesn't consider the total amount of "budget" available for compensation. It assumes that the organization is ready to meet the incremental value of compensation paid to employees. But most companies do have a "budget" for compensation and would like to adhere to them. Usually, the total budget for increased pay packets would be divided amongst the various organizational

units depending on the units size and its relative importance to the functioning of the organization.

Alternative – 2: Reduction Factor

In such cases, the compensation factors (the F vector) has to be adjusted for the allocated budget for each organizational unit. This can be done by multiplying the F vector with a “Reduction Factor”. The reduction factor can be calculated by dividing the allocated budget with the total required budget for the given unit. The required budget is the sum of the increments to be given to the entire unit. The following paragraph gives the mathematical computation required to calculate the “Adjusted Compensation Factor” vector.

Let I_e represent the Increment given to e^{th} employee, where $e = 1$ to n and n is the number of employees in the organizational unit. Then $\sum I_e$ represents the total “Required Increment” for the unit. Let I_b represent the “Budgeted Increment” for the unit. Then the “Reduction Factor”, RF can be calculated as.

$$RF = (I_b / \sum I_e), \text{ ----- (3)}$$

Where $e = 1$ to n , n is the number of employees in the unit

Let the the “Adjusted Compensation Factor” vector be represented by the matrix AF of the order $1 \times n$. It can be obtained by multiplying the original compensation vector by RF as below

$$AF_{1 \times n} = RF [F_{1 \times n}] \text{ ----- (4)}$$

The “Adjusted Compensation Factor” is then used in place of the “Original Compensation Factor” in order to adjust the increments to the budgeted value. A word about RF is relevant here. RF value will be less than one and will drag down the compensation factor if the allocated budget is less than the required budget. Its value will be greater than one and will drag the compensation factor up if the allocated budget is more than the required budget. Hence an organization here would have the flexibility to reward those units where performance is notably high by maintaining an RF equal to or greater than one. Similarly, when the organization would like to optimize its compensation costs (say, in times of recession) it can do so by maintaining an RF less than one. Thus, RF becomes a tactical tool in the hands of the organization to reward high performance, while optimizing its compensation costs.

Case – 2: Using the compensation factor for devising incentive schemes

Increasing the basic pay of an employee has the risk of organization bearing continuously incremental costs. Hence many organizations keep the basic pay of employees at a stable basis, increasing them only occasionally. Usually such increased basic pay might be because the pay packets have to be adjusted to inflation in the economy. The pay for performance packet, therefore has an incentive component, which compensates the employee according to his/her performance

In such cases, the challenge is to determine the amount of incentive to be paid to each employee for improving performance. Usually the performance parameters are specified and the cost and revenue impacts of such performances are clearly laid

out before employees. For instance, a call center employee might be paid an additional incentive or bonus, if he gets an exceedingly good customer feedback about his call handling skills. Or a shop-floor employee might be given incentive for the safety measures he has taken where such measures are critical for job success. Or a sales executive might be paid an additional incentive for crossing his sales target by a large extent. In each case, the employee is being compensated for exhibiting high performance on critical competencies.

Since, job related competencies have been identified using the competency modelling process and performance has been measured using the mapping process, we can use the same to compute compensation factor. This can then form the basis for providing incentives to employees.

Illustration:

Let us assume that the organization has a revenue sharing plan, in which it announces that it would share a part of the cost savings achieved with the employees. Now, this plan would require the organization to determine two things. First, it has to determine which units have been responsible for cost savings and second it has to find out how to distribute this within the organizational unit.

Using competency modeling data, we can identify those units where cost saving competencies have been stressed. Using the mapping data we can also identify how each member within each unit has contributed to the overall cost savings. Now, to administer the incentive plan, instead of considering all the competencies, we would consider only those competencies where the criticality rating is high (We assume that criticality ratings are given as per the business and unit strategies. Since cost reduction is a unit level strategy, we assume that cost saving competencies are rated high on criticality) and compute the compensation factor using equation (1).

Taking data from Table-1, we take only those competencies whose criticality rating is 5 and compute the compensation factors. The table for the same is given below.

Table – 5: Compensation Factors for selected criteria

COMP	CR	ER1	WR1	ER2	WR2	ER3	WR3	ER4	WR4	ER5	WR5
PROD	5	2.24	11.2	3.46	17.3	2.9	14.5	3.61	18.05	2.83	14.15
QUAL	5	2.31	11.55	3.31	16.55	2.58	12.9	3.3	16.5	2.31	11.55
COST	5	2.24	11.2	3.6	18	2.85	14.25	3.65	18.25	2.74	13.7
ATTI	5	1.75	8.75	3.74	18.7	3.41	17.05	3.71	18.55	3.6	18
RELI	5	2.1	10.5	3.51	17.55	2.88	14.4	3.3	16.5	3.6	18
C_p	25	F	2.128		3.524		2.924		3.514		3.016

As in the case above the F vector obtained can be used as the basis for arriving at the amount of incentives given to the employee in each unit. Here the total quantum of incentive to be given is well known since the cost savings per unit are assumed to be well measurable. The challenge that remains is to divide the cost savings amongst unit members in such a way that the highest performer gets the largest share and the

second best performer gets the next best share and so on. For using the compensation factors. We cannot directly use the compensation factors to determine the percentage of share an employee gets in the total incentive, since the total of the factors doesn't always come to 100%. In order that this criteria be met, we have to reduce these factors in such a way that their total comes to 100%, while keeping the order of performance intact.

To do so, we first find the sum of compensation factors and divide each compensation factor with the sum and multiply it by 100 to find out the percentage share of each factor in the total. By doing so, we will ensure that the order of performance is intact while the sum of the "Adjusted Compensation Factors" totals to 100. The mathematical formula is given below.

Let $\sum F_i$, where $i = 1$ to n , and n is the number of employees in the unit, represent the sum of all compensation factors. Let $AF_{1 \times n}$ represent the Adjusted Factor Matrix, of the order $1 \times n$. Also, Let I represent the total amount of incentive available to be distributed and let the matrix FI , of the order $1 \times n$, represent the final incentives. Then we have:

$$AF_{1 \times n} = (100/\sum F_i) * F_{1 \times n} \text{-----} (5)$$

$$FI_{1 \times n} = I * AF_{1 \times n} \text{-----} (6)$$

Table – 6: Adjusted Compensation Factors and Final Incentives

F	AF (=F*100/15.116)	I	FI (=AF*I/100)
2.128	14.0778	200000	28155.6
3.534	23.3792	200000	46758.4
2.924	19.34374	200000	38687.48
3.514	23.24689	200000	46493.78
3.016	19.95237	200000	39904.74
15.116			200000

Conclusion:

This paper has endeavored to show how competency mapping can be linked to manage compensation strategies and tactics. We have successfully shown, how Internal Equity can be taken care of using live competency data. Despite the many limitations, some of which we have tried to address in the paper itself, this model proves to be a better way of aligning compensation systems to business goals. We have taken as illustrative cases, only two circumstances, but we welcome researchers to explore other compensation models and use the above system to fine tune them.

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