

# Generating & Measuring a Return on Your Competency Management Investment



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## Executive Summary

Today, more than ever, human resource managers, training and development specialists and organizational development specialists are being called upon to demonstrate a Return on Investment (ROI) for their company's human resource practices. As we move into the Knowledge/ Information era, human capital assets are quickly becoming the primary means of production for many organizations. Given this reality, today's leaders and HR managers must be held more accountable for the effective management of these vital resources if their organizations are to remain competitive and sustainable. To achieve this they will need feedback on how effectively they are managing these resources. Measuring the ROI of the organization's HR practices is perhaps the most critical source of this feedback. It provides valuable information for evaluating the effectiveness of current HR practices and investment decisions. It also provides valuable information for making informed decisions on the future management of these practices and where best to invest.

Competency management systems (CMSs) like Exxceed's CompetencyPlus™ and competency-based HR applications like Exxceed's PerformPlus™ (for performance management) and SelectPlus™ (for internal and external selection) are effective tools for leveraging an organization's human capital assets. These systems and applications will hereafter be referred to as competency management systems as competencies are a fundamental component for each. Some CMSs can also be effective in providing the means to measure the ROI of the organization's HR practices. Truly effective CMSs enable organizations to translate corporate strategy and goals into workforce demands (i.e., competency models) which are, in turn, used to assess current workforce capability (employee competency assessments). By comparing workforce demands with workforce capability end-users, including HR practitioners, executives, managers and employees, are provided the gap-fit information they need to effectively manage their respective human resource (HR) practices and decision making. Whether it's the executive team who need to understand organizational capability and how effective HR initiatives have been in addressing critical competency gaps whether it's the front line managers who need to objectively assess and develop their reports' capabilities and to source the right talent for the right work opportunities; or employees who need to understand what competencies they need today to be successful and to understand what career options are available to them in order to progress in the organization, a competency management system is a human capital management system for the whole enterprise.

The reporting capability of the CMS is the most potent vehicle for measuring the ROI of the organization's HR practices. The reason for this is simple. A CMS supports and houses a company's most strategically relevant information – the capability of its workforce. In addition, it has a built-in knowledge of the company's corporate structure. Collectively, this information enables the CMS to generate reports at all levels of the company - for the corporation as a whole or for any subset of the organization such as business units, project teams or individuals – on competency fitness and changes in competency fitness. These changes in the competency fitness of individuals, business units and whole organizations can be used to measure the effectiveness of recruitment, training, succession planning, compensation or any other human resource practice areas that use competencies. For this reason, a CMS is a valuable tool for determining the ROI of the organization's HR practices.

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This white paper is intended for:

- **Customers** of CompetencyPlus, PerformPlus and SelectPlus who wish to gain a better understanding of the value that can be realized from these applications and how to go about measuring it
- **Sponsors and project managers** of CMSs to gain a better understanding of the value proposition behind a CMS, how to position it internally for a successful implementation, and how to measure its ROI
- **Executives and HR managers** who need to evaluate the effectiveness of the company's HR practices and systems, and to evaluate the alignment of corporate strategies and goals with respect to workforce capability
- **Managers** who want to understand how their company's CMS can be used as a potent Management Information System to more effectively manage the training, career management, performance, recruitment and project management of their direct reports

Readers will be provided with a brief background on the role of ROI within the human resources domain. A discussion will follow on how Exceed's CompetencyPlus application can be used to generate and measure a ROI for an organization's competency-based HR practices. Finally, a Benefits and ROI Checklist for competency-based HR practices is provided. The Checklist serves two key purposes. First it provides internal champions, project sponsors and project managers of competency management systems with a list of the benefits for implementing competency-based HR practices in lieu of traditional HR practices. This information is particularly valuable to communicate to end-users when rolling out the competency management system and competency-based HR processes to garner their support and ensure end-user adoption/compliance. The second key purpose of the ROI Checklist is to provide the project sponsor(s) and manager(s) with a list of what measures to use for evaluating the ROI for the targeted HR practice areas.

## **Background**

### ***Human Resources and ROI***

The importance of effectively managing the knowledge capital of the enterprise has placed significant demands on Human Resource organizations to measure human factors and demonstrate ROI on the enterprise's human assets and HR management practices. A survey by Quality Progress and Metrus Group (Morgan, B., Schiemann, W., 1999) revealed that even though *people measures* are used in many organizations, only 30 per cent of them use these measures for strategic purposes. For those that did, the five-year return on investment was 146% as compared to 97% in the other companies. Companies describing themselves as industry leaders were more likely to have performance targets linked to their people measures. They were also better at linking their people measures with customer satisfaction and financial performance measures. People managers must now demonstrate the relative Return on Investment (ROI) to the organization— especially when, on average, over 60% of all corporate dollars are spent on people costs. Appreciating that upper level decision making is increasingly dependent on accurate and timely information, the drive for both the attainment of performance metrics in real-time and for the continual need to demonstrate ROI is a serious reality.

The difficulty in calculating the ROI for competency-based HR processes is that these processes are linked to virtually all divisions and functions of a business and, as a result, it is difficult to isolate specific contributions to ROI. For example, an increase in employee productivity in a

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manufacturing organization could be attributed to a positive change in employee benefits, a new HRIS technology that helps employees better plan their careers in the organization, computer-assisted manufacturing (CAM) technology, or a change in workflow. Drawing any causal or direct relationship between productivity and any one of these interventions is very difficult without controlling some of the variables. If these other variables are static or stable however, both quantitative and qualitative data can be gathered to indicate ROI.

### ***Traditional ROI***

Formally, Return on Investment (or relative return) is a financial measure calculated by dividing ‘returns’ (i.e., revenues) by ‘investments’ (i.e., expenses). This definition suggests a very limited view of ROI that only considers the financial variables of a calculation – as would be found on an organization’s balance sheet, for example. As most managers know, the relationship between their department’s functions and the balance sheet is more indirect. The challenge for them has been to demonstrate how their practices contribute by either increasing returns (revenues) or reducing investments (expenses) and this is often difficult to impossible depending on the functional area they operate in.

The problem with the traditional approach to ROI is that it relies on *lagging indicators* of performance. Financial metrics reflect what has happened in the past and are not always effective for guiding decisions about the future. Becker, et. al. (2001) reference an analogy that “...compares using them [financial metrics] to guide decisions about the future to driving your car by looking in the rearview mirror!” (pp. 30). Not enough attention has been paid to the drivers of performance – the things that managers can actually control and influence.

### ***Modern Thinking on ROI***

There is clearly a need to move beyond the performance metrics of the industrial age. In order to be more proactive rather than reactive with our human capital management practices, the performance metrics of the knowledge age must include both *lagging* and *leading* indicators. *Leading* performance indicators consider such things as product quality, customer satisfaction after an interaction, and faster time to market. According to the modern ROI thinkers, these non-financial measures reflect a company's real sources of value – those which customers truly care about (Violino 1997). As an example, CIOs are already making information technology investments on the expectation that these investments will payoff in terms of customer satisfaction. Competency management systems, as you will see, enable organizations to effectively contribute to both financial and non-financial performance gains as well.

### ***The Balanced Scorecard and Competency-based HR Management***

A recently popularized approach for measuring ROI is the Balanced Scorecard (Kaplan & Norton, 1992). This approach considers four perspectives when assessing performance: the traditional financial perspective, as well as customer, internal process, and learning and growth perspectives. The figure on Page 7 (*Competency-based HR and the Value Creation Process*) is a conceptual framework that can be used by HR to implement a competency-based human capital management strategy that directly supports the corporate agenda, and can be used to subsequently measure the value that results.

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For more information on using the Balanced Scorecard to support HR processes see *The HR Scorecard* by Becker, Huselid and Ulrich (1999). The remainder of this paper is focused on generating a return on competency-based HR practices. Each of the four Balanced Scorecard perspectives based on Kaplan & Norton's groundbreaking work are described below.

### **Financial Perspective**

These measures answer the question "How do we look to shareholders?" Again, this means demonstrating how HR practices contribute to increased returns and reduced investments. Competency management systems can indirectly contribute to increased returns by enabling the development of competencies that truly differentiate high performers in the workplace. A higher performing workforce will be more productive and, if managed well, more profitable. For example, by developing a competent sales force we would expect to see higher overall sales revenues. There would be a positive correlation between improved competency fitness and increased returns.

These systems also contribute directly to the reduction of investments. For example, implementing targeted training initiatives through a competency management system saves unnecessary training costs (direct training costs and the costs of lost production time). The costs of unnecessary training can be calculated by totaling the costs of training that were allocated to unnecessary training in the previous year (i.e., training licenses that are not renewed because they are no longer deemed necessary based on current competency requirements).

### **Customer Perspective**

These measures answer the question "How do customers see us?" Examples of such measures include time (do we deliver on time?), quality (defect level), and performance and service (how do our products or services create value for our customers?). Through effective competency management we would expect to see a positive relationship between customer satisfaction and the development of employee competencies that contribute to time, quality, performance and service improvements.

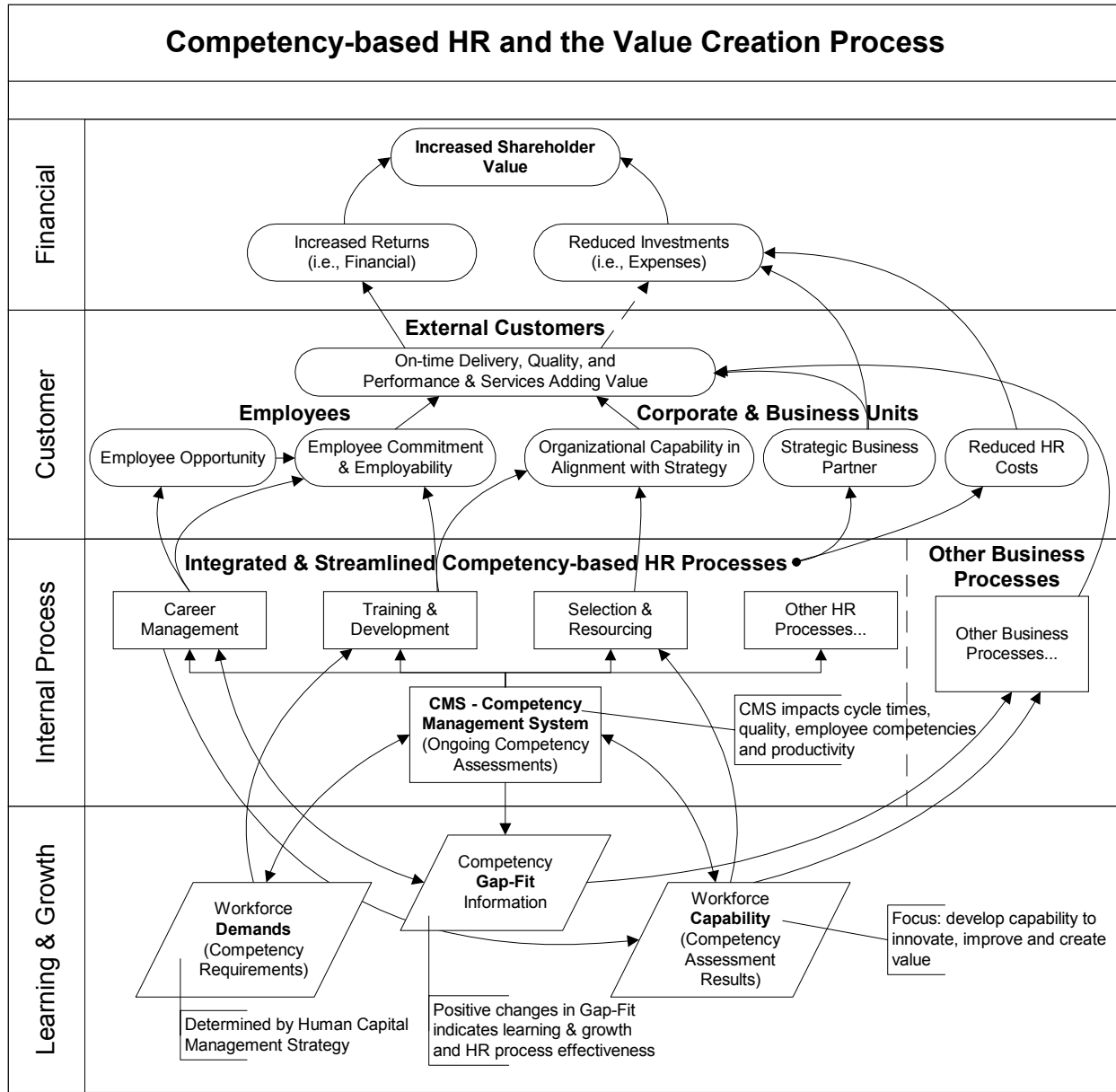
### **Internal Process Perspective**

These measures answer the question "What must we excel at?" Internal processes are the processes, actions and decisions that allow an organization to satisfy its customer's needs, and they impact such things as cycle time, quality, employee competencies and productivity. Competency management systems can support virtually any human resource process (hence making them 'competency-based') and the measurable benefits can be significant. In fact competency management systems can have their greatest influence on the human resource processes. For example, a CMS can have the following impact on the candidate selection process: reduced candidate screening cycle time, reduced time to start (due to quality of new hires with the right competencies), reduced cost per hire, etc...

### **Learning and Growth Perspective**

These measures answer the question "Can we continue to innovate, improve and create value?" "Only through the ability to launch new products, create more value for customers, and improve operating efficiencies continually can a company penetrate new markets and increase revenues

and margins - in short, grow and thereby increase shareholder value.” (Kaplan and Norton, 1992, pp134). CMSs provide the capability to pinpoint ‘mission critical’ employee and organizational competency gaps; to establish competency development plans to close these gaps; and to measure changes in employee and organizational competency fitness (proficiency levels). This capability directly supports a learning culture and positive changes in workforce capability.



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## **Using CompetencyPlus to Support HR Decision Making and ROI Determination**

CompetencyPlus v.3 is scheduled for release April 2003. The capability of this application is perhaps your best means for making informed human capital management decisions and for measuring the return on investment from your company's HR practices.

CompetencyPlus v.3 is equipped with three tools to support HR decision making and measure HR ROI: competency assessment, customized surveys and organization analysis reports.

### ***Competency Assessment***

Competency assessment is a process that has gained popularity in virtually all areas of human resource management. The capability to assess competencies and determine competency gaps (or competency fitness levels) at individual, team and functional/divisional levels enables organizations to implement more cost-effective and meaningful training and development practices; to measure changes in individual and team capability; and to select better internal and external candidates.

### ***Customized Surveys***

Customized surveys, targeted at specific employee groups allows system administrators and managers to design and launch web-enabled surveys to gather such information as:

- initial competency inventories (workforce capability)
- changes in employee satisfaction
- changes in staff perceptions concerning specific HR functions or processes
- exit interview information

### ***Organizational Analysis Reports***

CompetencyPlus v.3 provides organizational analysis reports that can be used to fully leverage your workforce capability and evaluate the ROI of your competency management system and competency-based HR practices. Using your company's most strategically relevant information – the competencies or capability of the workforce – and the built-in knowledge of your company's corporate structure, CompetencyPlus v.3 can generate valuable reports for all levels of the company. By analyzing the competency health (or changes in health) of your organization, these reports can be used to make more informed decisions about, and to evaluate, such practices as (but not limited to):

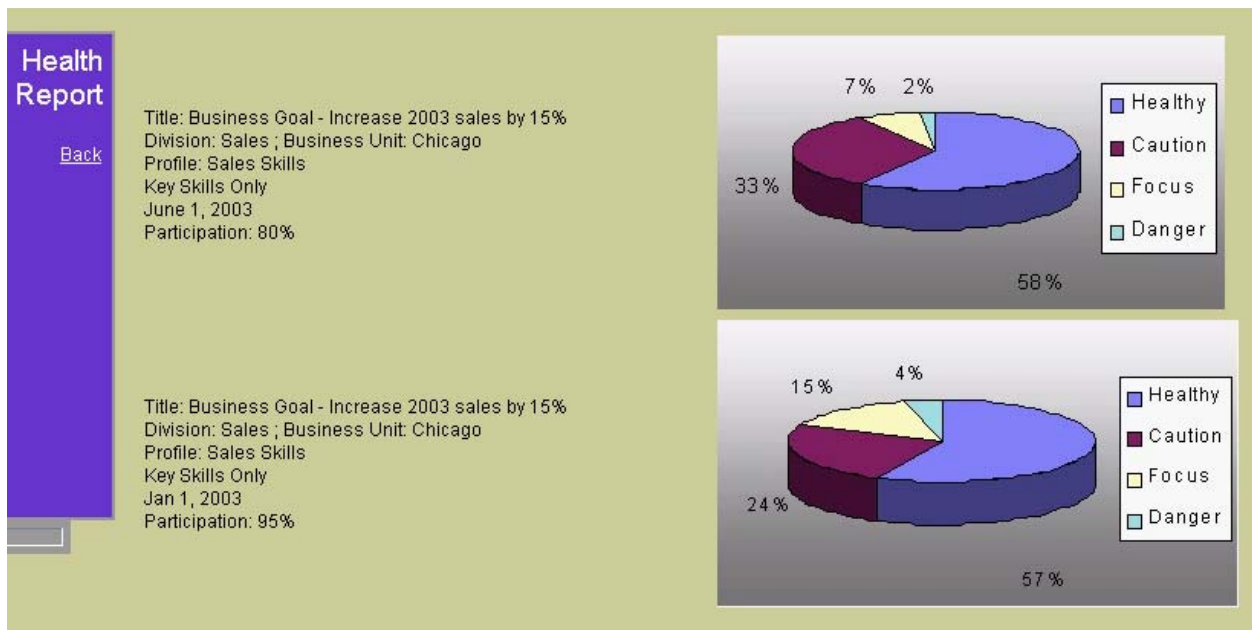
- Training and Development
- Resourcing and Recruiting
- Leadership Development and Succession Management

There are four categories of Organizational Analysis Reports:

- Competency Health
- Employee Ranking
- Learning Activity Demand
- Compliance

**Competency Health Reports** – these reports are used for determining an organization’s competency health or fitness. ‘Health’ is a continuum – at one end are the competencies that have significant gaps (poor health) between the current and required levels of proficiency, and at the other are competencies that have none (good health). By comparing workforce demands (i.e., competency requirements) with workforce supply (i.e., current competency inventory), CompetencyPlus v.3 provides you with a clear picture of your organization’s competency strengths and liabilities. It also allows you to monitor the competency health over time in order to evaluate the effectiveness of your HR processes and interventions.

**Sample Health Report (showing changes in Competency Health over time)**



**Employee Ranking Reports** – these reports are used to support resourcing, recruiting and succession management HR processes. By selecting a specific competency profile (model) or even a specific competency, managers and HR Consultants can run reports that rank employees of any organizational unit (i.e., division, department, team) based on how well they fit the profile or competency requirements for a position or work assignment.

**Reports**  
[Employee Details](#)  
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**Ranked Results for "Mergers and Aquisitions Specialist"**

The following is the ranking of employees found in your chain of command using the Profile "Mergers and Aquisitions Specialist"

Name	Rank Based on All Skills (max 100%)	Rank Based on Key Skills (max 100%)	Total Rank (greater than 100% indicates overqualified)
Joe Bloe	100	100	145
Mary Cheescake	100	100	110
Bobby Baker	100	90	90
Tim McDougal	100	90	90
Jerry Coglin	80	100	110
Monica Smith	70	100	80
Jennifer Earle	70	90	90
Tom Johnson	50	80	50
Jessica Baker	40	40	40

**Learning Activity Demand Reports** – these reports are designed to provide Training Managers with detailed information on the training requirements of their company, organization, department, etc... They can easily determine the number of employees that are demanding/requiring training for a specific learning activity based on the employees’ current competency gaps. This same report identifies areas of demand (i.e., competencies) for which training is currently not available – a clear training needs assessment.

### Sample Learning Activity Demand Report

**Course Demand**

Select a Title to view people that requested this course in their IDP.

Course ID	Title	Delivery	Demand (approved)	Demand (waiting approval)	Total Demand
773392	Common Communications	Classroom	89	45	134
123999	Leadership	Classroom	48	45	94
8483	Java Basics	Classroom	22	32	54
5994A	Diversity and You	SS	16	33	49
884433	Going the Distance	Classroom	14	20	34
2399	Management 101	Classroom	14	18	32
900045	Object Oriented Design	Classroom	20	8	28
268-C	Advanced Presentations	Classroom	4	23	27
2220001	Financial Policies	WBT	12	12	24
00001	New Hire Orientation	Classroom	22	0	22
234	Developing Employees	Classroom	18	2	20
02911	Network Basics	WBT	12	4	16

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**Compliance Reports** – The ultimate measure of success for any competency management system is the degree to which end-users (employees, managers) actually log on and use it. The easiest way to measure this usage is through compliance reports. CompetencyPlus is equipped with the *IDP Compliance Report* which determines how many employees, of any organizational unit, have Individual Development Plans that have been authorized by their managers.

**IDP Compliance**

	Name	Country	Region	City	Division	Department	Manager	Reports	UnApproved
<input type="checkbox"/>	John Smith	USA	NW	Seattle	Finance	231	Tom Fisher	22	4
<input type="checkbox"/>	Linda Thompson	USA	NW	Seattle	Finance	18	Tom Fisher	12	0

[Select All](#)  
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### Using CompetencyPlus to Support each HR Practice Area

Attention will now be focused on each HR practice area to better understand how the Organizational Analysis Reports of CompetencyPlus v.3 can help generate and measure ROI across each HR practice area.

#### Training and Development Reporting

In addition to the Individual Development Planning function, *Learning Activity Demand Reports* support informed training decisions at team and functional/divisional levels of the organization. These reports are designed to give you the information you need to:

- make sure your people are being given the learning opportunities they need to attain the competency levels they require in their current positions;

- 
- move towards their next job levels; and
  - ensure that the most strategic competencies of the organization are getting developed.

The *Learning Activity Demand Reports* can easily be used to determine (help determine):

- what learning interventions to bring in (training needs assessment)
- when to bring learning interventions in (just-in-time training)
- how to modularize courses to provide targeted and competency-specific education to the most people for the least cost
- how many people should attend a course in a given subject area and geography
- what learning activities are in the highest demand across the organization
- what type of learning opportunity (i.e., classroom-based course, online learning) is most cost effective
- changes in Competency Health after learning interventions

### **Resourcing and Recruiting**

The *Employee Ranking Reports* allow recruiters and hiring managers to search through your whole organization or subsets of your organization (based on chain of command restrictions) to find people with key competency sets or individual competencies at the push of a button. The ROI derived from this function includes dramatically reduced selection cycle time and accuracy of decision-making. As organizations are expected to operate at the speed of thought, traditional resourcing and candidate screening practices such as internal postings and competitions can be exhausting and very time-intensive. CompetencyPlus allows you to determine successful teams of people with the key competencies in hours rather than weeks. By creating a Resourcing Profile of the competencies and proficiencies required, you can easily search your organization or candidate pool to find the individuals who most closely match the profile for which you are looking.

The Employee Ranking Reports allow you to:

- determine the best qualified internal or external candidates based on competency gap-fit
- dramatically reduce your resourcing/recruiting cycle times for projects, teams and vacant positions
- identify your star performers
- identify experts in certain areas for knowledge management purposes

Note: for a more robust competency-based recruiting solution see **SelectPlus™** at <http://www.exxceed.com/web/products/selectplus/index.htm>

### **Succession Management and Leadership Development Reporting**

The Organizational Analysis Reports of CompetencyPlus will help your organization implement rigorous competency-based succession management and leadership performance planning solutions that maintain the vitality and sustainability of your organization. First, *Employee Ranking Reports* allow you to use existing competency models of the targeted position(s) to screen high potentials based on their proven competence in the targeted areas. Once identified, *Individual Development Plans* (IDPs) can be prepared ensuring that the high potentials receive the developmental and training opportunities they need to succeed. The *Learning Activity Reports* can help ensure that these opportunities are in place to address the specific competency requirements for these key positions. Finally, the *Competency Health Reports* allow you to

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analyze the leadership talent pools over time to ensure that your succession management and leadership development practices are effective and that your organization has the leadership talent it needs to support current and future organizational strategic objectives.

CompetencyPlus Organizational Analysis Reports allow you to determine:

- leadership capability (bench strength) and risk to execute/not execute on current and proposed strategies,
- current and future resourcing requirements of your management team,
- appropriate internal or external high potential candidates based on competency gap/fit analysis, experience and career plan alignment,
- what learning interventions to bring in based on an analysis of the Individual Development Plans of your leadership team, and
- changes in *Competency Health* of your leadership team during the performance period.

### **Other HR Practice Areas**

The value and use of CompetencyPlus Organizational Analysis Reports are only limited by the imaginations of those who use them. Never before have HR practitioners and managers had access to such a wealth of information on the human capital assets of their organization(s). Turning this information into strategic knowledge is the job of the end-users that have access to the reporting capability. Here are examples of how the Organizational Analysis Reports of CompetencyPlus can be used to support other HR practice areas:

**Workforce Planning and Strategy.** Human Capital Management Strategists can use the reports to more effectively design and implement new workforce plans to meet the dynamic and changing workforce demands required by the corporate agenda. At the same time, using their new knowledge of the workforce supply and demand, these strategists are better positioned to evaluate the organization's risk of failing to execute on the corporate strategy, and to evaluate the options for reducing the gap between workforce supply and demand and/or realigning strategy to take advantage of current workforce strengths.

**Performance Management.** Managers and Performance Management Specialists can use the Competency Health Reports and Compliance Reports to better support performance management practices across the enterprise. Many organizations identify a set of competencies that best differentiate high performance in job families and/or jobs on the basis that these are the best predictors of performance. Using the Competency Health Reports, managers and performance management specialists can monitor the organization's effectiveness in closing the proficiency gaps for these strategic competencies. Compliance Reports are used to monitor employee compliance for completing their Individual Development Plans – that will lead to the development of the critical competencies and ultimately to performance gains.

Note: for a more robust competency-based performance management solution see **PerformPlus™** at <http://www.exxceed.com/web/products/performplus/index.htm>

**Compensation and Rewards.** Compensation Specialists can evaluate the effectiveness of competency-based pay schemes by monitoring changes in Competency Health over the course of the performance period. Implementing competency-based pay systems is also made easier with the use of CompetencyPlus as employee proficiency for the 'skill blocks' or 'competency

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blocks' within a pay band can be monitored, and corresponding promotion/pay decisions can be made.

Note: It is highly recommended that competency-based pay be implemented only after the organization has successfully implemented other competency-based HR practices and that the organization has truly endorsed a 'culture of competence'.

## **Benefits and ROI Checklist for Competency-based HR Practices**

The following ROI checklists have been developed and organized according to human resource practice areas so that HR practitioners can easily identify the expected benefits and ROI measures for their competency management implementations. The benefits and ROI measures listed below are by no means conclusive but rather are examples only. No two competency management systems are alike just as no two companies are alike. It is up to the HR practitioner to determine what benefits are expected to come from their competency management system and how best to measure the return on investment. These examples should provide food for thought so that the most meaningful benefits and measures can be identified for your company.

The checklists are provided for Practitioners to use to indicate:

- which **benefits** are most relevant to the target organization(s)
- which ROI **measures** are *currently* in use
- which ROI **measures** *should* be in use

A 'Balanced Scorecard' approach was used in the development of the checklists in order to demonstrate a well-rounded measure of ROI (Kaplan and Norton, 1998). HR practitioners can print off this section and use it as a worksheet. It is recommended you choose ROI measures which reflect the four domains of the balanced scorecard; financial, customer service, learning and innovation, and internal processes. Within each HR practice area the measures have been organized according to the four domains of the balanced scorecard with the exception of Corporate HR, which is limited to financial indicators. The practice areas include:

- Corporate HR
- Competency-based Training and Development
- Competency-based Recruiting, Internal Selection and Succession Management
- Competency-based Performance Management
- Competency-based Career Management
- HR Administration
- Competency-based Awards and Compensation

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## Corporate Human Resources

At the corporate HR level the following benefits may be realized from the implementation of a competency management system:

- ❑ Supports strategic organizational/cultural transformation. By identifying and developing a common set of core competencies from a new strategic directive, a new, unified culture can emerge.
- ❑ More successful mergers and acquisitions. By using a core set of competency profiles (models) and core competencies, companies will be better positioned to collect an accurate inventory of its human assets; make more informed workforce planning decisions; and better align disparate cultures through a common set of corporate core competencies.
- ❑ More effective delivery of HR services and support to business units.
- ❑ Cost control through the elimination of HR process and capital (human and non-human) redundancies. Competencies and competency models serve as a common link across the HR process areas. Competency management systems can therefore support the integration of HR services and systems across the enterprise.

The following measures are for use by the executive team in determining company-wide HR gains accrued as a result of, or in part to, the competency management system and practices.

### Measures of Corporate HR ROI

- ❑ **Human capital return on investment (HCROI)** ratio shows profit for every dollar spent on employee pay & benefits as calculated by subtracting non-human expenses from revenue and dividing this number by pay and benefits (HCROI expected to increase)
- ❑ **Human capital value added (HCVA)** indicates human capital productivity as calculated by subtracting non-human expenses from revenue and dividing this number by the number of FTEs. (HCVA expected to increase)
- ❑ **Human capital cost factor (HCCF)** is the total cost of pay, benefits, contingent costs, absenteeism and turnover (if the number of FTEs is a constant, HCCF expected to decrease due to expected reductions in turnover and absenteeism)
- ❑ **Human economic value added (HEVA)** indicates economic value added (EVA) per employee as calculated by subtracting the cost of capital from net operating profit after tax – all divided by the number of FTEs (HEVA expected to increase)
- ❑ **Number of individual performance goals achieved** (greater percentage of goals expected to be achieved)
- ❑ **Voluntarily turnover** of star employees that left the company (expected to decrease)
- ❑ **Turnover costs**, as calculated by cost of termination, replacement, vacancy and learning curve productivity loss, turnover costs (expected to decrease) Note: turnover will cost "...a company the equivalent of at least six months of a nonexempt person's pay and benefits and a minimum of one year's worth for a professional or manager". Jac Fitz-enz, 2000

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## Competency-based Training and Development

*“Many professionals - under the mantle of career entrepreneurship - will throw in their lot with enterprises that have clearly committed to and funded skills management programs.”*

*- Gartner Group, 1998*

Competency assessment can effectively isolate employees' current competency gaps and help them to map out training and development plans targeted at closing those gaps. The following benefits may be realized with the implementation of competency-based Training and Development:

- Supports employee self-determination, accountability and ownership for their competency development requirements
- Training focused on 'mission critical' competency gaps result in the elimination of unnecessary training (saves money and employee down-time)
- Cycle time to close competency gaps is greatly reduced enabling organizations to develop desired workforce capability in the most efficient and cost-effective manner
- Improved employee performance, productivity, service, customer satisfaction, quality of work...as a result of proficiency gains in critical competencies
- An increase in employee perceptions of the 'relevancy' of training
- Current individual and organizational training needs automatically identified by competency system
- Improved ability to forecast and respond to organization's critical training needs
- Able to provide just-in-time training which results in improved learning retention and applicability to work
- Improved training vendor responsiveness (can negotiate reduced rates when clear inventory of training needs is available)
- Competency gaps can have multi-modal learning objects such as elearning, ILT, eBooks/books, and mentors automatically associated with them thereby eliminating the time required by employees to 'source' appropriate training
- Improves utilization of vendor-licensed learning content/objects
- Ability to evaluate training and training vendor effectiveness based on changes in Organizational Competency Health and eliminate ineffective training (in-house or externally provided)
- Supports ISO9000, Capability Maturity Model (CMM) and Six Sigma compliance
- Supports regulatory compliance for regulated professions (i.e., healthcare, financial services, etc...)

Examples of competency-based training and development return on investment:

- TELUS Communications decreased leadership development costs by 50%
- Petro-Canada increased on the job competency usage from 30% to 90%
- IBM reduced their North American training budget by 50% and achieved the SAME competency growth results
- NEC America decreased training costs by over 70% by targeting their training to critical competencies and by leveraging this information for training vendor management
- Gartner Group reported that companies who implement CMSs see a 25% increase in productivity

The following measures are for use by the executive team and Training Managers in determining the effectiveness of the competency-based training and development practices.

## Measures of Training and Development ROI

### Financial Measures



Favorable changes could result in such financial indicators as:

- Training cost as a percentage of operating expenses
- Training ROI (such as the increase in sales activity after sales training)
- Training costs per full time equivalent
- Training costs per hour
- Budgeted vs. actual costs of training and development
- Budgeted vs. actual costs of training and development per full time equivalent

### Customer Measures



Positive changes should be seen in the following customer measures:

- Customer satisfaction and loyalty
- Customer perceptions of on-time delivery, quality, and performance and service value
- Manager and employee time spent sourcing training
- Employee commitment
- Employee perceptions of career mobility
- Employee job satisfaction
- Employee perceptions of the 'relevancy' of training
- Business unit perceptions of HR as strategic partner
- Training responsiveness to changing demands of business units
- Organizational competency fitness / Health Report (capability to support strategy)

### Internal Process Measures



Internal process improvements could be measured by:

- 'Learning Culture/Organization' achievement metrics (establishment of a development-oriented culture)
- The usage of contracted vendor training programs
- Number of sales people who have reached or exceeded sales quotas
- Number of learning formats supported
- Employee productivity and performance (i.e., productivity, quality)
- Number of lost production days due to unnecessary training
- Quality measures (i.e., number of errors, amount of waste...)
- Regulatory and environmental compliance measures
- Number of safety infractions
- Number of legal infractions
- Percentage of employees with individual development plans (IDPs)

- Percentage of employees who successfully completed IDPs (and developed competence)

### Learning and Growth Measures



Positive gains should be seen in the following measures of learning and growth:

- Training hours by job group
- Total annual training hours
- Total annual training hours per full time equivalent
- Changes in competency fitness for individuals, business units, etc... (Health report)
- Time-to-market for new products/services

### Competency-based Selection and Resourcing

Competency assessment can be used for Selection (Recruiting) and Internal Resourcing when assessing how well an internal or external candidate, or high potential candidate fits the requirements for a specific job, work assignment or key leadership position. By creating competency-based jobs or resourcing profiles, recruiters and managers can screen candidates based on how well their competency proficiencies match the profile. The following benefits may be realized with the implementation of competency-based Recruitment, Internal Selection and Succession Management:

- Reduced cycle times associated with the hiring process (i.e., requisition cycle time, candidate screening/short-listing cycle time, recruiting cycle time...)
- Reduced hiring costs (resource usage) as cycle times shortened
- Improved attraction of highly qualified resources as a result of learning-oriented culture that has the system to support it
- Reduced ramp-up time and ramp-up investment for new hires
- Ability to source better qualified candidates
- Improved new hire retention
- Improved job satisfaction of new hires

The following measures are for use by the executive team and Selection / Resourcing / Staffing Managers in determining the effectiveness of these practice areas.

## Measures of Recruitment and Internal Selection ROI

### Financial Measures



Favorable changes could result in such financial indicators as:

- Cost per hire (this can be measured in terms of external, internal and college cost per hire)
- Budgeted versus actual costs for the recruitment and internal selection process
- Budgeted versus actual costs for the recruitment and internal selection process per full time equivalent

- Turnover costs of new hire terminations (within six months of being hired)

### Customer Measures



Positive changes should be seen in the following customer measures:

- Customer satisfaction from working with new hires
- Customer retention after working with new hires
- Employee perceptions of access to opportunities
- Satisfaction amongst hiring managers
- Staff and new hire perceptions of new hire job-fit
- Job satisfaction of new recruits and reassigned employees

### Internal Process Measures



Internal process improvements could be measured by:

- Number of employee referrals of new recruits
- Percentage of new hires retained past probation period
- Team performance measures
- Administrative time spent on termination procedures
- Cycle time to reallocate human resources following organizational structure changes
- Hiring cycle time
- Number and average duration of vacant positions
- Absenteeism of new hires
- Turnover of new hires (within six months of being hired)
- Total separation rate
- Voluntary separation rate and involuntary separation rate
- Voluntary separations by length of service
- Number of resumes for hiring managers to process
- Number of interviews for each position hired
- Time to start for external or internal candidates (i.e., from 95 days to less than 70)
- Capture rate (accepted/extended offers)
- Candidate prioritization time (time to shortlist candidates)
- Accession rate (replacement hires and hires for new positions as a percentage of the workforce)

### Learning and Growth Measures



Positive gains should be seen in the following measures of learning and growth:

- Organizational capability developed (as a result of new hires) in areas where none existed
- Time-to-market for new products/services

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## Competency-based Performance Management

Competency management systems can help facilitate the Performance Management process in your organization. By providing an objective set of measures, competencies provide an effective benchmark from which to measure the performance gains of both employees and teams. When the competencies are behaviorally anchored and adequately validated, they also support merit and competency-based pay strategies. PerformPlus™ is a powerful performance management system that supports the two critical components of performance management: goal-setting (the ‘what’ of performance) and competency assessment (the ‘how’ of performance).

The following benefits may be realized with the implementation of competency-based Performance Management:

- Employees not only know what their performance objectives are, but they also know how to achieve them with the right competencies
- Development plans automatically established for each employee based on their roles/position in the organization
- Employees are evaluated on their ability to develop the strategic, ‘mission critical’ competencies of their respective roles/positions
- Organizational Analysis Reports can identify and monitor the organization’s (or any business unit’s) success in developing the strategic competencies
- Compliance reports can monitor those employees with complete and authorized development plans and those who do not
- Performance evaluations are more objective - the evaluation process is made easier through the use of an objective language of performance – competencies

## Measures of Performance Management ROI

### Financial Measures



Favorable changes could result in such financial indicators as:

- Budget versus actual costs for the performance management process per full time equivalent
- Budget versus actual costs for the performance management process
- Gross revenues

### Customer Measures



Positive changes should be seen in the following customer measures:

- Customer satisfaction and loyalty
- Customer perceptions of on-time delivery, quality, and performance and service value
- Corporate measures of performance and productivity
- Business unit measures of performance and productivity
- Achievement percentage of organizational, business unit and individual performance goals
- Manager perceptions of the fairness & objectivity, and their comfort with, the performance

- management process
- Employee perceptions of the fairness & objectivity, and their comfort with, the performance management process
- Manager and employee perceptions on the alignment of competencies with organizational goals and strategy

### Internal Process Measures



Internal process improvements could be measured by:

- 'Learning Culture/Organization' achievement metrics (establishment of a development-oriented culture)
- Percentage of employees with individual performance/development plans
- Percentage of individual performance/development plans successfully executed by end of performance period
- Percentage of critical competency gaps across the organization (Health report)
- Regulatory and environmental compliance measures
- Number of safety infractions
- Number of legal infractions

### Learning and Growth Measures



Positive gains should be seen in the following measures of learning and growth:

- Time-to-market for new products/services
- Changes in competency fitness for individuals, business units, etc... (Health report)

## Competency-based Succession Management

Competency assessment ensures that the Succession Management process in an organization includes the development of key competencies by employees slated for advancement. Competency gaps can be linked to the training activities necessary for promotion.

The following benefits may be realized with the implementation of competency-based Succession Management:

- Using a competency profile for the targeted position, users can run a report which instantly identifies *high potentials* across any organizational unit reducing screening time by up to 80 percent over conventional approaches
- High potential* candidates *objectively* identified based on demonstrated ability resulting in better candidate selection and retention once started in the targeted position
- Organizational Analysis Reports can identify the current risks and vulnerabilities of your leadership team

- Once identified, *high potentials* can automatically be set up with competency development plans based on existing leadership competency profiles and the appropriate links to learning
- Time to start* cycle time can be reduced by 60 per cent over conventional practices as training is directly linked to candidates' specific competency gaps

## Measures of Succession Management ROI

### Financial Measures



Favorable changes could result in such financial indicators as:

- Budget versus actual costs for the succession management process
- Budget versus actual costs for the succession management process per full time equivalent

### Customer Measures



Positive changes should be seen in the following customer measures:

- Customer satisfaction and loyalty
- Customer perceptions of on-time delivery, quality, and performance and service value
- Corporate and business unit confidence to sustain ability to execute strategy and accomplish goals
- Leadership perceptions of quality of 'high potential's' identified
- Leadership and successful candidate perceptions of job-fit
- Job satisfaction of successful candidate
- Leadership and successful candidate perceptions of system's development planning capability

### Internal Process Measures



Internal process improvements could be measured by:

- Retention of successful candidate's past probation period
- High potentials selection cycle time
- High potentials prioritization time (time to shortlist candidates)
- Number and average duration of vacant positions
- Time to start for successful candidates
- Capture rate (accepted/extended offers)
- Number of full time equivalents involved the succession management process

### Learning and Growth Measures



Positive gains should be seen in the following measures of learning and growth:

- Time-to-market for new products/services
- Changes in competency fitness for key leadership positions (Health report)
- Time to start for successful candidates

## Competency-based Career Management

Competency management systems help ensure that the Career Management process in an organization encourages employee empowerment and ownership for their careers. Employees can identify competencies required for their present position and future positions on the career ladder. Employee competency profiles can then be linked to the training activities necessary for promotion.

The following benefits may be realized with the implementation of competency-based Career Management:

- Easy and cost-effective way for organizations to implement and provide career management support to its workforces
- Career paths easily mapped out and available to end-users to support career exploration within the organization
- Fosters establishment of a *Learning Culture*
- Manager time freed up for more strategic activities when employees are equipped and encouraged to manage and take ownership for their careers
- Improved employee job satisfaction
- Employee career mobility supported
- Allowance for employees to develop competencies in line with career aspirations/goals
- Contributes to employee job satisfaction and retention

## Measures of Career Management ROI

### Financial Measures



Favorable changes could result in such financial indicators as:

- A change in budget versus actual costs for the career management process
- A change in budget versus actual costs for the career management process per full time equivalent

### Customer Measures



Positive changes should be seen in the following customer measures:

- Manager satisfaction with the career management support for themselves and for their employees

- Manager time spent in career management and training discussions with employees
- Employee job satisfaction
- Employee awareness of career opportunities within the organization
- Employee satisfaction with career management support
- Employee perceptions ownership of career management and development processes
- Manager perceptions of employee ownership of career management and development processes
- 'Learning Culture/Organization' achievement metrics

### Internal Process Measures



Internal process improvements could be measured by:

- Percentage of employees with individual development plans
- Percentage of employee with long term career goals (i.e., greater than one year) with the organization

### Learning and Growth Measures



Positive gains should be seen in the following measures of learning and growth:

- Number of employees developing competencies for next job
- Number of employees cross-train for other job-related roles/specializations/ opportunities (increasing their value, and ability to add value, to the organization)

## Human Resource Administration

Competency management systems ensure that the Human Resource Administration team has the information needed to improve HR processes and make informed human resource investment decisions that are specific to the operations of the Human Resource department.

The following HR Administration benefits may be realized with the implementation of a competency management system:

- Automating HR process areas can reduce the amount of manual processing of HR/personnel-related information. This saves unnecessary labor costs
- Reduced HR process cycle times and improved operational efficiencies across virtually all HR activities
- Integration of HR processes (breaking down the *silos*) by way of a common electronic infrastructure and database resulting in a *shared services* model and, in many cases, an elimination of redundant systems and processes (costs savings)
- Reduced HR costs per full time equivalent
- CMS is a human resource management tool that HR can use to better support managers and business units, and establish itself as a strategic business partner
- Organizational compliance with HR policy is well supported through competencies

# Human Resource Administration ROI

## Financial Measures



Favorable changes could result in such financial indicators as:

- HR expense percentage (HR expenses versus operating expenses as a whole)
- HR investment factor (HR expenses per full time equivalent)
- HR system costs relative to gains
- Budgeted versus actual costs for the HR department as a whole
- Budgeted versus actual costs for the HR department as a whole per full time equivalent

## Customer Measures



Positive changes should be seen in the following customer measures:

- Manager and employee complaints
- Manager and employee perceptions of HR as a strategic business partner
- Manager and employee perceptions of HR responsiveness and value

## Internal Process Measures



Internal process improvements could be measured by:

- Reporting capability and value for end-users (executive, manager, HR specialists, employees)
- Number of employees cross-trained (able to perform additional roles/responsibilities outside their current position)
- Number of HR full time equivalents (FTEs)
- Number of HR FTEs as a percentage of total FTEs
- HR labor costs
- A decrease in absenteeism (also used to measure other HR processes)
- Manager and employee compliance metrics with HR policy

## Learning and Growth Measures



Positive gains should be seen in the following measures of learning and growth:

- Competency Health (Health Report) across the enterprise and organizational units (particularly in strategic areas)

## Competency-based Rewards and Compensation Measures

Competency management systems help ensure that the Rewards and Compensation process in an organization rewards for the right competencies and provides easy documentation so that those employees who excel in the key competencies can be compensated differentially.

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The following benefits may be realized with the implementation of competency-based Rewards and Compensation:

- Supports person-based pay vs. job-based pay
- Employees motivated to cross-train (employees are valued by the capabilities they offer the organization) resulting a more talented and flexible workforce
- Supports establishment of a *Learning Culture*
- Supports employee self-management and ownership of their careers
- Works well in organizational climates that are complex, dynamic and/or project or role-based (vs. static job-based)
- Works well in organizations with flattened hierarchies (i.e., where lateral moves are best supported)
- Employees are motivated to develop future capability
- Competency-based rewards and compensation programs have been shown to produce improvements in: employee retention, customer satisfaction, productivity, performance, quality and compensation costs (reductions)
- Customer satisfaction results have been shown

Note: for more information on competency-based pay please see the white paper entitled: *Competency-Based Pay and the High Involvement Organization*, available at [www.exxceed.com](http://www.exxceed.com)

## Measures of Awards and Compensation ROI

### Financial Measures



Favorable changes could result in such financial indicators as:

- Compensation as a percentage of revenue
- Compensation as a percentage of operating expenses
- Compensation, including benefits, as a percentage of revenue
- Compensation factor (compensation costs per full time equivalent (FTE))
- Compensation, including benefits, as a percentage of operating expenses
- Total labor cost as a percentage of operating expense
- Total labor cost as a percentage of total revenue
- Benefit costs as a percentage of revenue, operating expenses, or compensation costs
- Budgeted versus actual costs for the rewards and compensation process per FTE
- Budgeted versus actual costs for the rewards and compensation process
- Organizational compensation rates versus market rates

### Customer Measures



Positive changes should be seen in the following customer measures:

- Customer satisfaction and loyalty
- Customer perceptions of on-time delivery, quality, and performance and service value
- Corporate, business unit and employee performance and productivity metrics

- Corporate, business unit capability in alignment with strategy and goals (perceptions and Health Reports)
- Employee job satisfaction
- Learning organization

#### **Internal Process Measures**



Internal process improvements could be measured by:

- 'Learning Culture/Organization' achievement metrics (establishment of a development-oriented culture)
- Number of safety infractions
- Number of legal infractions
- Regulatory and corporate policy compliance
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#### **Learning and Growth Measures**



Positive gains should be seen in the following measures of learning and growth:

- New product time to market
- Training hours by job group
- Total annual training hours
- Total annual training hours per full time equivalent
- Changes in competency fitness for individuals, business units, etc... (Health Report)

## **Summary**

Return on Investment is becoming a key competitive advantage for those organizations that can harness the power of such information. Competency management systems, such as CompetencyPlus, PerformPlus and SelectPlus provide the power to not only design targeted interventions for key human resource management processes, but also to gather the information and valuable feedback at the end of the performance period to determine the effectiveness of these interventions. Examining this information will help managers identify the roadblocks to successful performance and help them better maneuver their organizations around them.

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