Chapter 7
Competency Models' Return on Investment

ABSTRACT

When businesses invest in the competency model, they want to know they are putting businesses' financial resources in the right place. The literature and the evidence support the use of competency models. Those best-in-class organizations outperform their competitors when organizational competencies are in place for employees and the business has a valid competency model. The discussion that follows discusses executives' return on investment (ROI)—providing specific formulas relative to competency modeling. Finally, the discussion supports the reader through various resource tools for the executives to use and questions to be answered when examining competence-based ROI.

INTRODUCTION

Competency models have grown in their popularity. All organizations aim to achieve their desired business outcomes, accomplished effectively when goals and objectives align with their core competencies. With that popularity comes their utilization. For executives, return on investment (ROI) allows for a business case to be made regarding determining the value and the financial cost of adapting a competency-based approach. This chapter presents tools for the executives to use and questions to be answered. Identifying and examining the processes for ROI, this chapter offers formulas for exploration. A practical example is an explanation for how these tools can be used and evolved.

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In Chapter 1, we saw that measuring people's performance while at work is one of the most challenging things to do (Morgan & Schiemann, 1999). Nevertheless, management models and concepts have attempted to counter this challenge by measuring individual work behaviors and collective work behaviors. As previously described, competency models are extremely popular (Schippmann et al., 2000) due to their utility within work environments and the agility they adapt to constantly changing environments. With their popularity, their utilization as a performance management tool has soared (Freifeld, 2017; Pulakos et al., 2019). Whether competencies are behavioral, technical, or core, competency models are familiar to the business sector (Schippmann et al., 2000). There is growing evidence that companies with competency models and competency-based management systems outperform those that do not have competency-based approaches (Pulakos et al., 2019; Shet et al., 2019).

Similar to the 1990s, measuring people and their performance adequately remains a challenge. The science of management deals with measuring the effectiveness of people's performance regarding competencies employees use; once a competency model is in place, its placement serves the businesses' best interest. Choice of a competency approach and its model is a strategic decision that an organization makes. Therefore, an organization must improve their odds with the model they invest their companies financial resources. Following are the questions that businesses must ask and answer:

- Am I getting the best from the employees in my company?
- Are organizations with performance systems providing the business with real business consequences in achieving the desired outcomes?

Competency-based performance management systems provide real business consequences and real financial value determined through ROI by measuring the correlation between competency and bottom line (Jones, 2006). Moreover, answering the questions mentioned above will assist organizations in better understanding the value of competency in financial terms.

Executives' challenges are to show that expenditures for competency-based approaches, specifically leadership development and organizational core competencies initiatives, achieve desired results and a ROI. Calculating the benefits of the investment strategies made can be highly challenging as well as complex. In a competency-based approach, management systems that