The ROI of a Good Competency Model
Introduction

Building the right competency model can have a profound and far-reaching impact on your business. By identifying the ideal competencies and behaviors for a specific role, you increase your ability to both “buy” and “build” more effective talent. That is, you can assess external candidates against the profile to increase your quality of new hires, and you can assess internal candidates against that same profile to identify skill gaps, build better development plans, and increase performance.

While most companies seem to recognize the inherent value of these competency models, very few take the time to assess and evaluate the impact and ROI of their final product once it is implemented. One obvious reason for this is longitudinally measuring all the possible benefits and business outcomes of any one model could take considerable time and resources. In fact, you could be waiting close to a year from the day you launch your shiny new model to the day you see real and reliable upward trends in the quality and performance of your employees.

Fortunately, there are a few legitimate shortcuts we can take. We don’t have to start from scratch to create a good impact story and we certainly don’t need to wait a year to collect some meaningful data. By building on some long-standing industry research and using some new studies as a jumping off point, you can actually start building your case and telling your powerful story of impact in just a few months. With some simple, but targeted assessments you can collect all the data you need to calculate a robust and impressive ROI. The following case study details how we created and measured the ROI of a competency model within a leading global financial organization.
The Team Leader Competency Model

One of the most critical roles within any service organization is the customer service Team Leader. Team Leaders work in the organization’s call centers and are responsible for coaching and supporting the front-line, customer-facing employees who can quite literally, make or break relationships with customers every day. These employees hold the key to establishing and building the company’s brand and reputation every time they pick up the phone and no one influences them more directly and profoundly than their Team Leaders.

Operating on the principles of a Service Profit Chain (simply stated: happy employees = happy customers = happy shareholders), the Profile for Success (as it was called in this particular organization) is meant to impact the bottom-line by increasing the engagement and productivity of customer service representatives via better front-line leadership...

Essentially, the Profile is a condensed and focused competency model, wherein the key criteria for high performance and all the most desired behaviors are literally spelled out for a specific role. For this particular initiative, we looked at the role of Team Leader and the types of behaviors that motivate, inspire and drive the bottom-line results of their direct reports. In other words, what are the things that Team Leaders do every day to really drive bottom-line revenue for the business?
Our Method and Approach

The strategy and approach was quite simple:

1. Find out where the highest performing, most productive teams are in the organization
2. Find out what those team leaders are doing every day to drive that higher productivity and customer satisfaction for the team
3. Make other team leaders throughout the organization do the same things.

We began creating our Profile by connecting with our line of business partners (directors and managers in the call centers) and asking them to identify their highest performing teams and leaders. These “rock stars” were then interviewed for 30 min. each using a structured set of questions. Items included in the interview were both quantitative (e.g. “How much time do you spend on each of the following tasks per week…”) and qualitative (e.g. “What are 3 things that you do for your direct reports almost every day that really drive their performance”).

As we began our data collection and analysis, what started to emerge were some interesting commonalities among these high performers. That is, we found some very specific behaviors that were consistently and conspicuously reported across all our high performing respondents. These most-frequently reported behaviors (e.g. sitting on a call with a rep and giving real-time feedback) were then bunched together according to similarity and “bucketed” under 5 over-arching categories we called dimensions (e.g. Coaching for High Performance, Acting as an Advocate, etc.).

These high performing “behaviors” were then validated over the following two months with a series of 90-minute focus groups made up of the Team Leaders, Managers, and Directors within the business. Here we asked the members of these focus groups to provide input on any dimensions or items that either “really fit” or “didn’t fit”. We also asked them to rank-order our behaviors and dimensions according to those that they perceived as most critical to the business. Knowing from our own internal research, that immediate manager support and endorsement can quite literally make or break any training initiative, we knew that this step was critical for a successful launch and implementation.
Finally, we presented the tool to the executive sponsors (Leadership Team) for the business, incorporated their additional feedback and launched the Team Leader Profile for Success later that year.

Building a Solid ROI Business Case

What we already knew from some of our own research, combined with some large-scale meta-analytic industry research was that a better competency model can improve productivity and drive bottom-line results in 3 primary ways:

1. **It clarifies roles and performance expectations.** With business-specific criteria clearly spelled out (the competencies and real-life behaviors of top performers) and clear guidelines about how to allocate their time every day, employees can set better goals and perform more of the “right behaviors” that really drive productivity.
   - Productivity can increase by up to 19% with the proper competencies in place

2. **It increases retention.** With clearer goals and targets come better development plans and coaching conversations. Assessing against the profile, employees have a clear indication of their strengths and development opportunities. Understanding “what improvement looks like” for each individual employee creates more personalized and targeted development. This is one of the most critical predictors of engagement and intent-to-stay within any company.
   - Turnover can decrease by up to 63% with the proper competencies in place

3. **It increases the quality of new hires.** With clear criteria and a more accurate profile of the highest performers in a particular role, recruiters and hiring managers can make more objective and informed decisions about which candidates will be successful in those roles.
THE ROI OF A GOOD COMPETENCY MODEL

This predictive power improves the quality of those hired, and more importantly, reduces the number of “bad hires” that can cost any company a tremendous amount of time and money.

- “Bad hire” rates can be as high as 40% if selection tools are based on the wrong competencies.

Thus, competency models impact the bottom line in 3 primary ways...

As one can already see from the above research, putting the “right” competency model in place can have a profound impact on some critical metrics and very quickly amount to a tremendous return on precious investment dollars. That being said, we wanted to really bring this business case to life by plugging in our own hard numbers and defining the ROI for this specific initiative.

Creating a “better” model

The first thing we had to do before developing any business case or ROI was to answer one critical question - Did we in fact create the “right” competency model? And when I say “right” – I really mean did we create a “better” one? That is, we certainly can’t say within most business contexts, that the absolute “wrong” competency model (or lack of one entirely) was replaced with the absolute “right” competency model. Rather, our hope was to simply achieve a level of improvement in our competency and performance model that would then be reflected and demonstrated by incremental improvements in productivity and bottom-line performance.
To measure the improvement in our competency model, we simply went back to our original criteria for a successful competency model and asked those critical questions to our target population (a sample of 100 Team Leaders and their managers):

- Are performance expectations clearer?
- Does this model allow you to create better development plans?
- Are you more engaged and focused as a result?
- Can/will you use the model for selecting a higher quality candidate?

These were our findings…

- 93% of TLs said their roles were clearer
- 100% of respondents said they could create better development plans
- 100% said they were more engaged as a result
- 91% said they could use to select better candidates

These findings very clearly demonstrated that the new Profile impacted our major criteria and represented a significant improvement over any previous competency or performance model within the business. Knowing we achieved our first objective of putting a better competency model in place, the next thing we had to do was start plugging some real numbers into our competency model ROI formula:
Defining the “Benefits” of the Competency Model

To accurately define the benefits of this particular competency model, we first had to make sure we were applying the right industry benchmarks. Although we’d love to just plug in all the high percentages from our diagram above, we did have to interpret what this industry research was really saying. The numbers in the diagram above come primarily from a meta-analytic study, which is a summary or average of all results and findings across similar types of impact studies. This means that out of a broad range of competency makeovers, there was a continuum of results and what is captured in the “benefits” box above represents the very best outcomes you can expect (thus the “can be as high as…” verbiage).
So, if our industry research is saying “productivity can increase by up to 19% with the proper competencies in place”, what it’s really saying is if there was a profound change and improvement in the competency model, you might expect 19%. However, in reality most new or revised competency models represent a relatively smaller step in the right direction and a much more conservative improvement in business metrics. Consequently, if you build a new competency model that is “just a little bit better” than your previous version, you should perhaps expect only a 5-10% productivity jump.

For the present research, we absolutely knew we improved our model, as per the results of our questionnaire, but we didn’t know exactly how much. Taking the most conservative position we could (you never want to exaggerate an ROI case), we assumed that we only made our competency model “a little bit better”. In other words, instead of saying productivity will increase by 19%, we estimated it at 5%. Instead of predicting a turnover decrease of 63%, we settled on 10%. And instead of saying we will cut the “bad hire rate by 40%, we projected a very conservative 10%. Albeit a very modest overall projection, you will see shortly how even these lower numbers will tell a very compelling and powerful story!

If we plug in our new numbers, we have the following…
Once we defined the percentages, we then consulted with our business partners and plugged in hard dollar values against these percentages using the wage = productivity contribution equation and the cost to replace metric. See below for the “Benefits” calculated in dollars...

**What is the $ Value of an Effective Competency Model?**

ROI for our Competency Model - Based on 100 employees each contributing an average of $50,000 of value per year... 

Aggregate contribution per year = $5,000,000.

<table>
<thead>
<tr>
<th>Competency Models</th>
<th>Benefit</th>
<th>Cost</th>
<th>ROI</th>
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<tbody>
<tr>
<td>✓ Increase productivity via clearer goals and functional performance standards</td>
<td>✓ Projecting a conservative productivity gain of JUST 5% instead of 19%...</td>
<td>$250,000</td>
<td>Return on investment</td>
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<tr>
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<td>✓ Projecting turnover decreases of JUST 5% instead of 67%...</td>
<td>$25,000</td>
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<td>✓ Increase the quality of new hires via a more predictive set of criteria to select candidates (reduces “bad hires”)</td>
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*Total value of contribution = Total salary*
Defining the Costs

Defining the costs was simple. Looking at some industry norms and gathering a few quotes from reputable vendors, we estimated this work to cost approximately $100,000. This included things like development costs, time for interviews, collecting and analyzing data, assessments, etc. See below for costs added in...
And finally to calculate your ROI...

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### Competency Models

- Increase productivity via clearer goals and functional performance standards
- Increase retention via greater role clarity and higher engagement
- Increase the quality of new hires via a more predictive set of criteria to select candidates (reduces “bad hires”)

### Benefit

- Projecting a conservative productivity gain of JUST 5% instead of 15%! 5% of $3,000,000 = $150,000
- Projecting turnover decreases of JUST 5% instead of 67%! To hire one new employee costs 10% of salary so $5,000 per employee. If we have to hire JUST 5 less employees AEXP saves $25,000
- Projecting a decrease in “bad hire” rates by ONLY 10%! If we go from 20 “bad hires” per year to 10, company saves 10 X cost to recruit and hire one employee (10X$5,000) = $50,000

*Total value of contribution = Total salary

### Cost

- Costs for developing and assessing employees against profile
  - COST = $100,000

### Return on Investment

- This is if we make just one competency model just a little bit better!
- **Return on Investment = $225,000**

**Conclusion**

The present case and findings clearly underscore how important and profitable it can be to build a good competency model. By relying on some industry benchmarks to define expected outcomes in the long term, we were able to concentrate our evaluation approach on things we can measure in the short term (e.g. did we improve the model). Using this approach, we proved that the new competency model was “better” than any previous version and estimated a very conservative gain of $225,000.00. Further, this fairly impressive benefit was realized by only a small sample of the overall team leader population and achieved within the very first year of implementation. As performance and the quality of employees filling these positions continues to trend up over the long term, the ROI will continue to
increase exponentially. So build your competency models…and the returns – they will come!