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Competence management

At the heart of your HRM policies

Why your talent strategy is only as strong
as the skills data behind it

Executive summary

When a mid-sized European manufacturer ran a routine internal audit, its HR team expected a clean result. What they found instead: nearly a third of shop-floor operators held at least one expired certification, not because training wasn't happening, but because no one had a live, accurate picture of who was qualified to do what, and at what level. By the time regulators arrived, the cost ran well into six figures. The root cause was not a lack of training investment, but a lack of visibility.

Across industries, organizations manage their most critical asset – workforce capability – through spreadsheets, job titles, and annual reviews that bear little relationship to the work actually being performed. The gap between what an organization believes its workforce can do and what it can actually demonstrate is persistent, expensive, and largely invisible until the moment it matters most.

The fix is competence management: defining, tracking, and developing the specific skills and competencies that drive performance, and placing that practice at the center of every HRM decision the organization makes. This whitepaper makes the case for why that shift is overdue, how it connects to the five cornerstones of effective HRM, what it takes to build a foundation that actually holds, and why the organizations that have done it are pulling ahead of those that haven't.

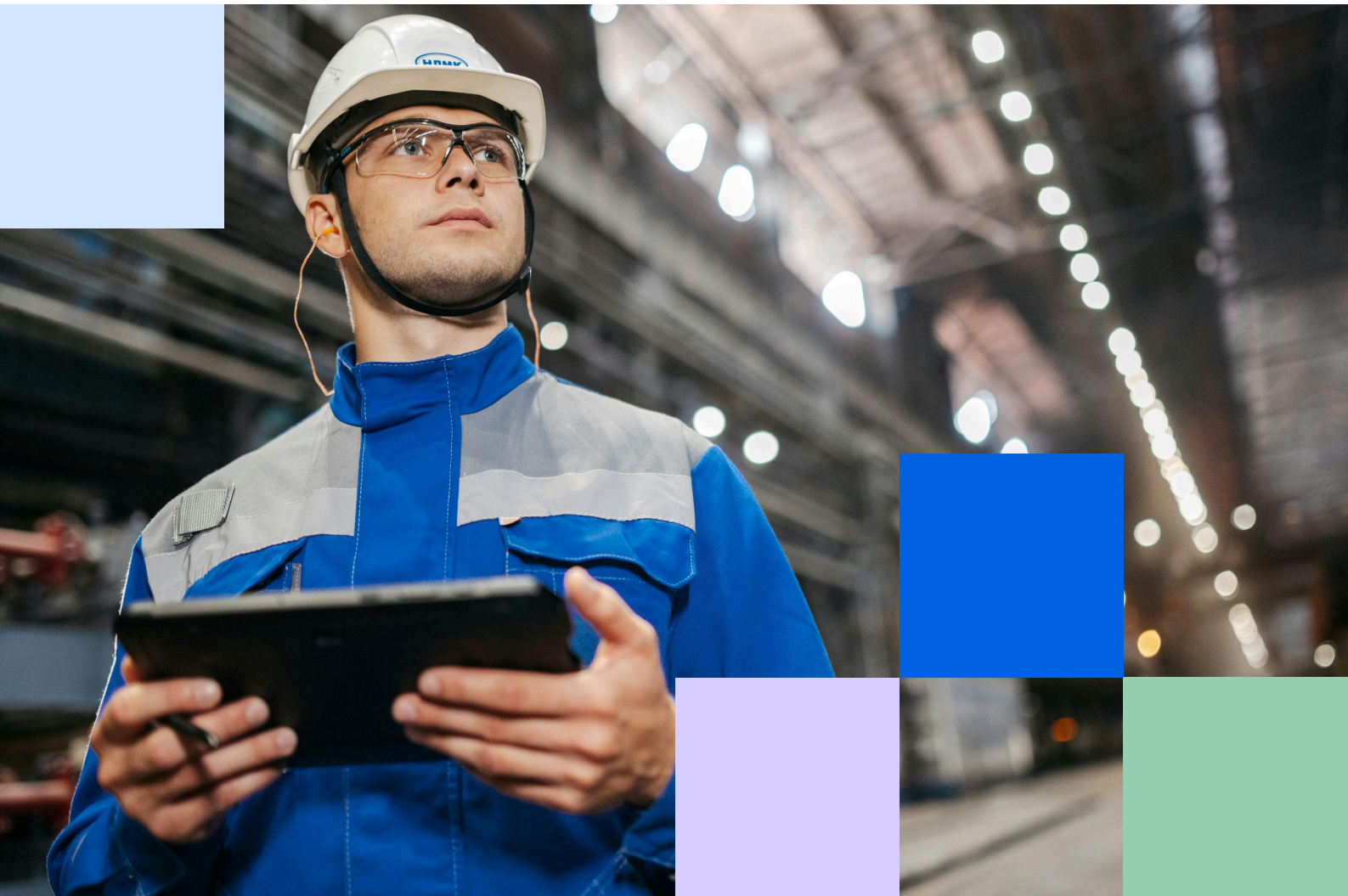


Table of contents

The problem with managing people by job title	03
Competence management: The foundation	04
Five cornerstones, one foundation	05
Building the competence library	07
The organizational case	08

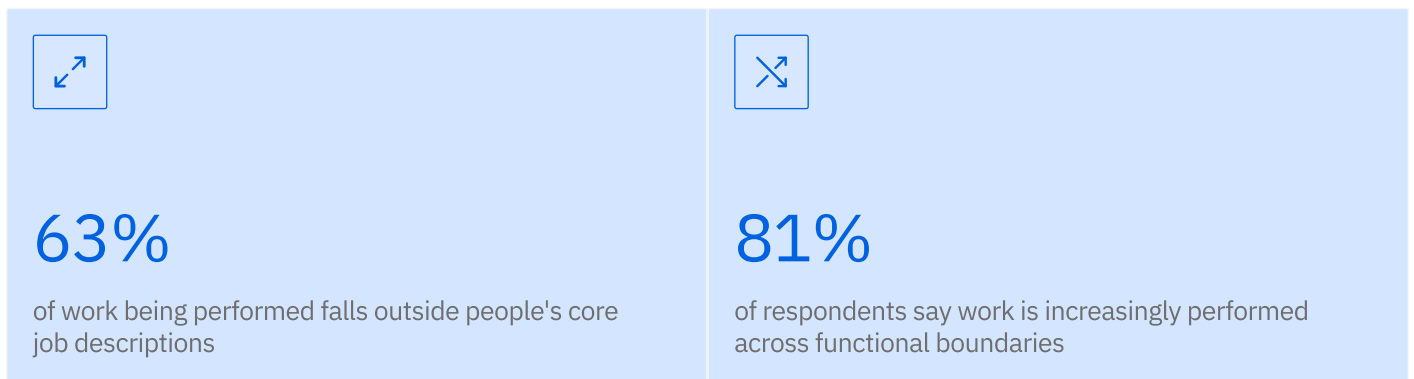
The problem with managing people by job title

There is a quiet dysfunction running through most workforce management systems, and most organizations have learned to live with it.

- Jobs are defined
- People are assigned to those jobs
- Training is delivered by role
- Performance is reviewed annually

Somewhere in the gap between these activities, in the space between what the org chart says and what the work actually requires, capability quietly erodes.

DELOITTE'S RESEARCH PUTS A NUMBER ON HOW WIDE THAT GAP HAS BECOME:



In a system managed by job title, this reality is invisible. The competencies an operator uses every day – the certifications they hold, the machines they can run safely, the procedures they can teach – exist nowhere in the system that is supposed to track them. When an auditor arrives, or a key person leaves, or a new product line requires a different skill set, the organization discovers its blind spots at exactly the wrong moment.

The business case for change is well-established. McKinsey found that organizations which realign HR processes around actual skill needs rather than job titles can boost employee engagement by 50%, cut training and development costs in half, and raise productivity by 40%.² The difficulty is not knowing what needs to change. It is building the will and the infrastructure to change it.



The foundation

The terms "competence" and "skill" are used interchangeably in most organizations, and for most practical purposes, that's fine. A skill describes what someone can do (calibrate measuring equipment, operate a forklift, execute a safety procedure). A competence describes how they do it: the behaviors, judgement, and proficiency level that determine whether they perform that work reliably, safely, and at the required standard. What matters in either case is the principle of multi-level proficiency.

A single-level assessment – can this person do this or not – collapses the nuance that actually drives performance management, development planning, and operational deployment.

A four-level model (trainee, independent, expert, trainer) answers a richer set of questions:

- ➔ Who can do the work?
- ➔ Who can do it unsupervised?
- ➔ Who can improve the process?
- ➔ Who can develop others?

This granularity is the infrastructure on which you can build meaningful recruitment, honest performance conversations, targeted development plans, and equitable pay structures. Without it, all five HRM cornerstones are weaker than they need to be.



Five cornerstones, one foundation



Recruitment and selection

Structured, competency-based interviewing consistently outperforms unstructured approaches in predicting job performance. When every role has a defined competence profile with specific behavioral indicators at each level, interviews can be built around evidence of demonstrated capability rather than vague qualities like "strong communicator" or "team player."

The result is a process that is faster, more objective, and more likely to produce the right hire, particularly for technical and safety-critical roles where competency gaps carry real consequences.



Training and development

Most training programs are assigned by role, not by gap, producing a combination of over-training (people completing content they've already mastered) and under-training (people missing the specific capability their work requires).

Competence management solves both. When the required competencies for each role are clearly defined at each proficiency level, development can be targeted precisely at the gap between where someone is and where they need to be.

MCKINSEY FOUND THAT

71-90% of organizations that invest in structured, skills-based development report positive impacts on strategy execution, employee performance, and employer reputation.³





Career planning

Only 32% of employees are engaged with their work, a figure Gallup's research consistently links to retention and growth opportunities.⁴ Multi-level competency frameworks make progression concrete and visible.

Employees can see:

- What they currently hold
- At what level
- Exactly what development would qualify them for the next step or role

This transparency gives managers a real basis for development conversations, and gives employees the clarity that is one of the most powerful predictors of whether high performers choose to stay.



Performance management

Performance management fails when it relies on subjective impressions. When "good performance" means different things to different managers, reviews become political rather than developmental, and employees don't know what is actually expected of them.

When both manager and employee can point to specific behavioral indicators at specific proficiency levels, the conversation has an objective reference point. Shortfalls are identifiable and actionable; strong performance is equally documentable. This substantially reduces the subjectivity that makes reviews feel arbitrary – and that contributes to the disengagement.

COSTS OF DISENGAGEMENT

Gallup estimates the costs to be **\$10 trillion annually**⁵, to the global economy



Remuneration management

Competency-based pay structures make the progression pathway explicit. An employee who develops from independent operator to expert, or who qualifies at trainer level and begins developing others, can see precisely what that means for their compensation.

More importantly, organizations can use remuneration structures to actively direct the development of capabilities they need, rewarding the acquisition of skills that align with strategic workforce priorities rather than simply rewarding tenure.



Building the competence library

The competence library is the organization's single source of truth for what every role requires at every level. It is the reference point that makes all five HRM cornerstones function consistently, and it is where theory becomes operational reality.






Building it starts with inventory: what skills and competencies does the organization actually need? This is not the same question as what the current job descriptions say it needs.

The answer is derived from the actual work:

- The tasks performed
- The machinery operated
- The regulatory requirements met
- The interpersonal demands of each role

FOR EACH COMPETENCY, THREE ELEMENTS NEED TO BE DEFINED

-  A clear name and description
-  A set of proficiency levels with meaningful distinctions between them
-  Observable behavioral indicators or assessment criteria at each level, so that evaluation is consistent regardless of who conducts it

This is the most significant investment in the process, but it pays dividends immediately and is theoretically only done once. Once the library exists, you can link it directly to job profiles, drive hiring decisions, inform development plans, and provide the audit trail that regulated industries require.

Organizations concerned about the scale of the exercise should know that sector-specific competency frameworks are widely available as starting points, particularly for technical, manufacturing, and healthcare environments, making the task considerably more manageable than it first appears.

The organizational case

The objections to investing in competence management tend to take one of three forms:

- It is for large companies
- It takes too long
- It costs too much

All three are more defensible as excuses than as actual barriers, and all three are less true than they were a decade ago. The more significant shift is in the external environment. PwC research finds that “AI-exposed jobs” are changing 66% faster than those that are not. This change is occurring the faster is “automatable jobs.” An organization that cannot clearly see its capability gaps (and close them efficiently) is both operationally inefficient and strategically exposed.

THE ORGANIZATIONS THAT HAVE MADE THE SHIFT ARE REPORTING REAL, MEASURABLE DIFFERENCES:



79%

more likely for skills-based organizations to deliver a positive workforce experience



63%

more likely to achieve results compared with those still relying on job-based talent practices

The performance gap is equally striking at the top of the market. McKinsey's research on strategic workforce planning found that S&P 500 companies that excel at maximizing return on talent generate 300% more revenue per employee than median firms.⁸ This proves that managing talent strategically and managing it administratively produce fundamentally different outcomes.

Competence management is the mechanism that closes the gap. The companies that place it at the center of their HRM strategy – not as a compliance exercise, but as an operational imperative – are building workforces that perform, adapt, and stay. The ones that don't are managing the consequences.



Sources

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