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## Competency development and labour remuneration system

### Развитие компетенций и система вознаграждения за труд

*Реферат.* В данной статье рассмотрены проблемы развития компетенций и компетентного подхода к стимулированию труда. Целью проведенного исследования стало определение основных типов профессиональных компетенций, их влияния на результаты труда и путей их развития. Определены два варианта трактовки понятия компетенции в зависимости от реального результата труда, обусловленного наличием и степенью развития компетенции: компетенция как потенциал работника и компетенция как степень достижения целей трудовой деятельности, то есть реализации этого потенциала. Была разработана система вознаграждения за труд, основанная на компетентном подходе и включающая три типа премий. Она включает минимальную премию, применяемую для разового вознаграждения успеха работника, квалификационную премию, требующую документального подтверждения уровня квалификации, и премию, вознаграждающую успешное применение компетенций. Для повышения эффективности анализа возможностей применения компетенций предложена классификация компетенций, основанная на трех основных признаках: зрелость, или степень развитости, источник или способ приобретения, сфера возможного применения. Подчеркнута необходимость в затратах времени и усилий на приобретение и развития практически любых возможных компетенций. Особое внимание уделяется формированию трудовых компетенций в течение того периода жизни индивида, когда он трудоустроен. Обсуждены источники формирования компетенций у работников, и подчеркнута важность проблемы выполнения действий по развитию компетенций за счет других видов деятельности. Сделан вывод о том, что работодатели и работники должны разделить нагрузку по затратам средств и усилий, требующихся для формирования компетенций, чтобы позволить последним более эффективно выполнять свои трудовые обязанности в будущем.

*Summary.* This article addresses the problems of competency development and of competency-based approach to labour stimulation. The objective of the performed research was to determine the key types of professional competencies, their influence upon work performance, and way of their development. Two variants of competency understanding are outlined depending on the actual performance enabled by the competency presence and maturity: competency as an employee's potential, and competency as the measure of labour activity goal achievement, which is in fact the realization of the potential. The system of labour remuneration based on the competency approach and including three types of bonuses was worked out. It includes minimum bonus applied for one-time reward of an employee's success, qualification bonus requiring formal proof of the qualification level, bonus rewarding successful competency appliance. The competency classification based on three key features was suggested for more efficient analysis of competency appliance opportunities: maturity, or development degree; source or way of acquirement; scope of possible appliance. The need to spend time and effort for obtaining and developing nearly all possible competencies was pointed out. Special attention is paid to forming labour competencies during the period of a person's life when he is employed. The sources of the competency formation for the employees were discussed and the problem of performing competency development activities at the expense of other types of activities was stressed out. The conclusion was made, that the employers and employees need to share the weight of means and efforts required for competency formation and development to enable the latter to perform their duties more effectively in the future.

*Ключевые слова:* компетенция, результаты работы, вознаграждение за труд, премия, развитие компетенций, усилия, применение компетенций.

*Key words:* competency, work performance, labour remuneration, bonus, competency development, effort, competency appliance.

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Introduction of competency-based approach into labour stimulation system determined the demand for corresponding correction in methods of staff classification, assessment and remuneration [3]. Company improves its business performance through staff development. Labour efficiency can be increased due to unique individual abilities of people, their knowledge, skills, experience, and personal characteristics which manifest through their labour behavior and orientation, interest and creativity.

We view competency as a set of personal abilities, knowledge, and skills of an employee enabling him to solve a certain group of professional problems. Competency-based approach is being actively involved in personnel recruitment, selection, assessment and stimulation. Also competency can be defined as formally set requirements for personal, professional, and other qualities of company's employees (of some part of them). This definition is applied for personnel assessment.

Before a company can form and initiate implementation of measures to identification, formation, development or stimulation of certain competencies in its staff, a great deal of work shall be undertaken to study competency-based job requirements, their grouping and definition of correlations between goal obtaining, successful work, and competence level. This work needs to be performed by managers in close cooperation with executors.

Our research resulted in the possibility of defining a competency in two ways:

- i) competency is the person's potential as a combination of internal qualities;
- ii) competency manifests as real (observable and measurable) result of professional activities.

These definitions are essential from the point of view of staff competencies identification and evaluation in any organization as well as selection of particular measures to be undertaken for competencies development and labour remuneration and stimulation [1].

The competency-based approach to remuneration for job performance is not only logically well-reasoned, but also as close to bringing about social fairness as possible for any measure undertaken under the terms of inherently non-transparent labour market. This can be achieved due to the fact that the employee's performance estimation through competency assessment takes into account both current and past personal effort. Past effort allowed the person to achieve the competence level he now possesses, while current effort creates present results in his work performance.

Employees in possession of similar qualification may achieve completely different results of their work performance due to their various personal qualities, natural abilities, working experience, work ethics, etc. These differences shall be reflected by the labour remuneration system. Consequently, the salary structure shall include guaranteed part defined by the labour legislation, and stimulating part which takes into consideration the indicators of individual and total efficiency of performance [2]. This stimulating part of the remuneration should, in its own turn, include some part attributed to the past effort and its results which takes the shape of the achieved competence level, and present effort of current appliance of the present competencies in everyday work performance which takes the form of specific results meeting the company's goals and requirements.

We suggest that the system of labour stimulation taking the competencies into account should include three types of bonuses:

1) Minimum bonus is applied for one-time reward of an employee's success untypical and unreasoned from the point of view of the competence-based approach, even if it is achieved due to some favourable combination of external circumstances which can be termed as 'stroke of luck'. The example of such situation is receiving additional amounts of profit, but not because of professionalism and effort of the employees, but due to sudden auspicious changes in the market conditions. In such case bonus is expected and customary but we suggest it should be minimum as such payments do not stimulate the employees to any activity but believing in luck and miracles. We recommend the amounts of about 5-15 % of the average monthly salary for such cases, though depending on the specific features of the situation and the field of the company's business activities these figures may vary considerably.

2) Qualification bonus which requires formal proof of achieving some specific qualification level or, in other words, maturing of particular of general competencies. The situation can be illustrated with payments for working experience (or the period of work within the same company), for grades or rating, for scientific degree (for scientists and university professors), for proficiency in languages, etc. All of them can be certified with documents but not all of the skill they prove may be applied directly for the current job during the period to be paid for. Nevertheless such bonuses are unavoidable, otherwise people lose the stimuli for professional growth and improvement as it withdraws the time and effort

from achieving current (and definitely rewarded) results. Besides, such bonuses should be appointed to an employee permanently, or at least for a period of considerable duration compared to the period required for achieving the professional level (at least for several years), otherwise the stimulus is but very weak and trifling. On the other hand, this does not prevent the employer from demanding regular confirmation of the achieved level, for example, through constant use of the skill, or through exams and reviews, or in any other legal and approved way fixed in the company's documentation. This all is due to the fact, that usually obtaining new skills or competencies, especially confirmed by official certificates or diplomas, requires a lot of effort from a person in question, sometimes even investment of personal money which the person considers worth spending this way only in case he is sure of remuneration in a while. That is why the amount of such bonus can vary very widely depending of the nature of the rewarded level or achievement (time and money spent, effort required, frequency of occurrence, etc.) as well as the advantage its grants to its holder for the particular range of his work functions. We suppose that competency levels easily or unavoidably achieved should gain minimum bonus. For instance, bonus for work at the same company can be increased by 1-5 % of average salary for each 5 years, except for jobs with specific conditions: dangerous, or located in some distant locations, or under harsh natural conditions. On the other hand, the levels requiring great effort of the applicant (such as scientific degree) should be rewarded more considerably. The important point is that sometimes the employer gains nothing from the fact his employees are in possession of such certified competences. In this case the presence or absence of bonus for them shall be clearly stated in the vacancy description and cannot be altered afterwards. Still, in some cases an employer should pay for the competencies his employees do not apply at present, for the sake of probable future need for them caused by the changes in the company's operations or policy. Nevertheless, total amount of such payments 'for potential', even if it is currently used, should not exceed 50 – 70 % of the monthly salary.

3) Bonus rewarding successful appliance the competency potential of an employee for business goal achieving and stimulating him for similar labour behavior in the future. Its size should be in proportion to the success it goal

achieving and virtually unrestricted by any limitation, though we do not suppose that receiving such bonus in the amount exceeding 100-120 % of salary is practically possible in case of monthly payments. In the payments take place 1-2 times a year the bonus may be 400-600 % on the monthly salary. We also suggest that more frequent smaller bonuses are more preferable due to both convenience for the company's cash-flow and better ability to affect and correct the employees' labour behavior. Annual payments may have rather weaker effect on labour behavior even if the amounts are bigger. Besides, the interval of the possible correction will in this case also be one whole year, which is unacceptable for the present rapidly changing business environment.

So, taking into consideration the degree of employee's competency maturity and its use for work is very desirable for labour remuneration system design, but it cannot pass without some difficulties, that can only be solved by means of thorough analysis of the particular situation at the given company.

Consideration of the competencies during the selection of the material stimuli for the personnel observes the principle of parity between the labour remuneration amounts and the employee's personal contribution for the final result of the business or unit operation, as well as the requirement for social fairness in the wages and income differentiation.

As it follows from the definition we gave earlier, competencies help an employee in settling his professional problems and improving his/her performance. There could be found scores of personal and professional abilities and skills which may be considered are competencies under some or other conditions, but only part of them are the competencies required for a particular profession or occupation.

There are many possible ways to classify professional competencies. We suggest the following grounds for competency classification which are most important for their development and appliance:

i) maturity (if the ability of a person is ready to be used in professional performance; they can be well formed and ready; those in the process of achievement; and absent or insufficient);

ii) source of acquirement or the way of formation (inherent; formed through education and with the help of second party to be called 'tutor'; formed in the process of self-education without any external help; and acquired along with professional or general experience);

iii) the scope of appliance (universal ones which can be applied for any type of work or even other human activities; professional, necessary for quality performance in a certain professional field; and special, applied for particular job or operations in a given company).

We consider it necessary to point out the need to spend time and effort for obtaining and developing nearly all possible competencies. Besides, some people may prefer not to concentrate of forming the set of competencies required for a particular job or professional field, but to develop a wider range of knowledge, skills and abilities to be able to find job in various companies and areas of expertise. They might consider it safer in terms of their future employment, or even think them better suited for the competition terms in the labour market.

The ways of forming labour competencies vary depending to the age of a person, his occupation, and the specific features of the competency itself (figure 1).

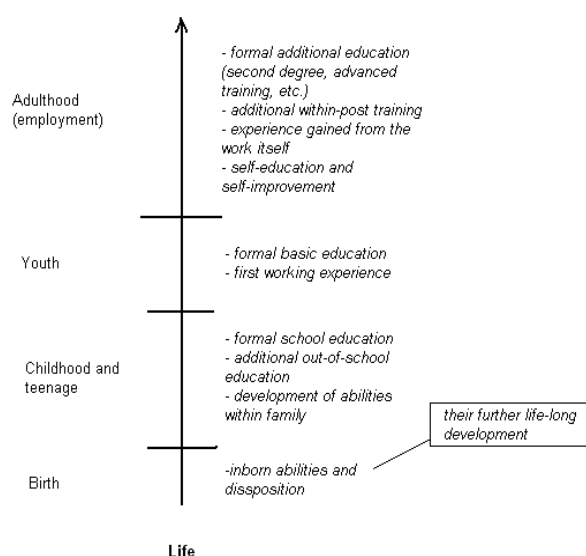


Figure 1. The ways of forming labour competencies at the various stages of a person's life

Within this article we pay special attention to forming labour competencies during the period of life when a person is employed and applying his competencies, and gaining new competencies is not his main activity. As we can see from the figure, the following ways to form new or develop the existing competencies are available at this period of life:

i) formal additional education, for which the person needs to quit his job temporary or get additional leave of absence or vacation;

ii) additional within-post training, which is usually organized by the employer to develop particular skills required for work in his company;

iii) working experience is the only available way which does not require extra time or effort;

iv) self-education, which usually takes place during the employee's off hours and shortens his time of leisure, hobbies, or time for his family.

So, some of the new competencies or new levels of their maturity can form, if we can say so, 'by themselves', in other words, the person simply works executing his regular duties, and his skills and abilities improve without additional effort on his part. But this is the minor part of the competency development complex. There are other competency development ways which are predominating and much more time-consuming.

Those other ways are especially necessary when the objective is to obtain new competencies never applied by the person before which is typical, for example, for the following situations:

i) moving to another company;  
 ii) change of post, profession, field of activity;  
 iii) considerable alteration of the person's job description within the same company and post caused by the company's adaptation to the changing environment or its diversification;

iv) extension of the existing job description and introduction of new duties (for example, because of internal secondary employment).

In any such case the employee shall put in additional time and effort for creation of these new competencies, and for this the source of extra time and effort is to be found. Time, strength and abilities for competency development may be withdrawn from the following items of their regular appliance:

i) working hours;  
 ii) specially assigned time (for instance, exam preparation leave, traineeship, etc.);  
 iii) secondary employment or other gainful activities;

iv) leisure, hobby, sports, etc.;  
 v) rest (including sleep and meals);  
 vi) private and family time.

So, here raises the problem of undertaking one type of activity at the expense of another. The employer prefers the competencies to be developed during the employee's off hours, while the latter wishes to keep some of the time for leisure and family. The former insists that, as the new competencies allow the employee to execute his duties better, the effort will be rewarded in the due time – which is when he, employer, starts to gain from it. On the other hand, the employee doubts that such reward is guaranteed as there is the risk that he might not need the new competency due to yet another change of situation, or he might lose the job completely. Besides, there is

the matter of time discounting, meaning that the money to be received in the future cost less than now, while the family need support today.

We insist that the problem shall be addressed in three dimensions. Firstly, development of new competencies shall not impede realization and appliance of the existing ones within the employee's direct work duties. This is the basic principle of the labour remuneration using the competency-based approach – the greater part of the remuneration should be calculated taking into account the current employee's performance. Secondly, the effort for competency development can partly occupy a person's private and leisure time but in no case should it negatively affect the quality of his private and family life, his health and psychological state. It also should not prevent the integrated development of his personality which cannot include only professional growth but also consists of many various aspects. Any other situation would be against the legislation in force and business ethics. And thirdly, the continuing life-long education concept does not permit denial necessity and importance of constant development of new and existing competencies. This idea arose as the response to dynamic alterations in the science and technology and cannot be thrust aside. So, it can be argued, that one of the duties, including work duties, of any person is to put time and effort into competency development.

When the competency-based approach in human resource management is applied, the key evaluation parameter for any employee is his competence competitiveness level, which, on one hand, demonstrates his possessing the required set of well formed and developed competencies to permit their realization, and on the other hand, can be measured by the degree of activity and success of their actual realization in problem solving to achieve the objectives set for the employee and the organization as a whole.

Usually organization personnel efficiency is assessed by two main methods:

- cost method (asset value model) – ratio of the final result of organizational activity (normally profit) and the expenses;
- cost-free method (utility estimate model as social expectation satisfaction measure) – ratio of the final result and satisfied needs, achieved goals, etc.

Competency-based approach suggests personnel assessment through comparison of the results, labour quality and complexity with the job description standards. Set of competencies may be

defined and labour behavior required for successful work in the current position. But normally it does not take into consideration the current effort for competency formation and development.

Creation and development of professional competencies is one of the key tasks for any employee, while help and support to his initiative in this direction can be considered as the duty of his employer and direct superior, and a mark of attractive position which most of candidates would be willing to take. On the other hand, the employee's effort in his quest for knowledge and skills cannot and should not be assimilated to actual working practice even under the introduction of competency-based approach to labour stimulation, as the purposes of such efforts are completely different. That is why we think it feasible to suggest the following measures to stimulate employees' efforts aimed at the improvement of their competencies under the terms of preservation of their work performance in accordance with their direct duties:

i) estimation of the employees' time and effort put into competency development;

ii) obligatory regular assessment of the results achieved by each employee in competency development;

iii) introduction of an aspect of stimulation of professional improvement and self-education in the existing labour remuneration and stimulation system (in can be both monetary and non-monetary);

iv) accentuation and legislative recognition of the employees' rights for self-development and the conditions required for it at the regional and national levels (the existing example is the right for paid educational leave which have all part-time students regardless whether they decided to get part-time education themselves or were sent to a university by their employer);

v) design of a system of employees' duties in terms of their competency development by the employers and informing the former group about them. Such system should include both employee's obligations and company's resources assigned for distribution among them for goal achievement in the area of competency development. The resources shall make possible the achievement itself and form the fund of remuneration for such achievements.

Thus, the employers and employees need to share the weight of means and efforts required for competency formation and development to enable the latter to perform their duties more effectively in the future.

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