



# Case Studies



International  
Labour  
Organization

Factory Improvement Programme

## Creating a Competency Matrix Improving HR Practices at Dong Anh Steel

Dong Anh Steel Company is located in Dong Anh town near Hanoi. Dong Anh Steel Company was originally established in 1997 as a State Owned Enterprise but has since equitised to become a joint stock company.



There are 238 employees working in the factory producing pre-engineered steel structures, based on customer orders. Two shifts per day work 8 regular hours each with some overtime as required.

The factory has been implementing a Quality Management System in accordance with ISO 9000:2000 since 2002. Before that the company had already run several internal training courses on quality and productivity concepts. Middle management and workers, therefore, had an understanding of quality and productivity concepts; however there is a view that this understanding has not been enough for creating innovation.

Factory management is very supportive of FIP and the approach that it takes. The director expressed the view that there is a need to change the way of thinking and working in his factory. Management would prefer to establish a cooperative working culture, supporting people at all levels to express their opinions to others at all levels.

The primary interest in FIP among management was, therefore, around the people-centric modules that would result in improving workplace cooperation and relations and ensure optimisation of human resources (HR).

### INITIAL SITUATION

Although the company does not have a formal HR department or staff, the HR module expert found that the roles and responsibilities associated with HR were being undertaken both within and across departments in this company. A formal HR department is desirable in an organisation such as Dong Anh Steel. However at this stage of the company's development it is more important that take responsibility for HR issues.

In discussion with factory management it was clear that the company continues to use the old State Owned Enterprise policies and procedures in its HR practices. Although this is a system they know well, many of the policies and practices that continue to exist in the State sector are outdated and not relevant to forward thinking HRM practices. Also, as the company is in a process of privatization, there is no requirement for them to follow such practices. This is particularly true in the case of compensation and benefits.

Government decrees and other directives followed by the company are supposed to achieve the following primary objectives:

- Ensure internal consistency (or equity) by ensuring relatively fair treatment for different jobs with different levels of skills and knowledge requirements while minimizing the compensation gap between the highest and lowest paid employees;
- Reward an employee's long-term service and commitment;

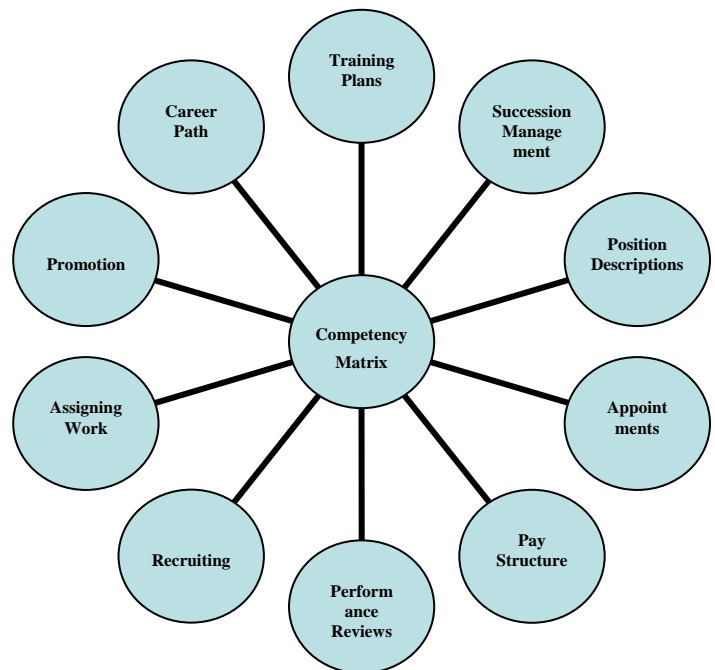
- Recognise employee job performance.

Within the State compensation system, there are two major groups - administrative staff and workers. They differ significantly in the way they are compensated. Employees classed as administrative receive position-based monthly salaries. The second group primarily consists of workers who are paid on an output or piece basis. Where problems exist in setting rates, it is usually with position-based paid employees, whose outputs are more difficult to measure – in the same way that it is considered more difficult to assess the performance of these people without sound objective and measurable criteria.

This State compensation system is quite complex. It is designed centrally to be applied both nationally and industry-wide. The design is partly based around defined industry norms and applies coefficients to take into account differences in geographic location (hardship, or cost of living), safety, working hours etc.

Whilst some aspects of the model may be robust in their design, in today's environment the system has a number of weaknesses and shortcomings:

- It takes no account of the market value of labour, despite the rapid growth of the private sector and their generally higher wage rates;
- The system is quite inflexible;
- It creates constraints within the enterprises – the differential between the highest and lowest paid employees are constrained by government regulation;
- The system takes very little account of individual performance;
- It does not easily provide a methodology for assessing administrative 'output' in the same way that it does for labour output (this is related to shortcomings in performance management systems);
- It creates difficulties in recruiting qualified people with new skills;
- The system does not motivate people to either study for qualifications or work hard – for example the system can allow a labourer with 9 years service to have a salary coefficient of 3.46, and an administrative employee with a degree and 24 years service a salary coefficient of 3.48;



- It restricts salary increases in administrative categories to promotion based on length of service, rather than performance. It therefore fails to recognise and give incentives to administrative employees (and thus retain them);

### RECOMMENDATIONS BY THE FIP TEAM

The HR expert recommended that the company should commence its improvements in the HR arena with the development of a new competency matrix which would be applied to the welding group of workers.

Initially, the company was unsure about developing and implementing this recommendation. However, after the expert's short workshop on 'thinking and acting like a proactive manager' it was decided that this was a good suggestion as although a small change it could have a large impact. The development of the competency matrix would have a "knock-on" effect and cause changes to other HR issues as highlighted below.

### ACTIONS TAKEN BY FACTORY

The Factory Improvement Team agreed that the new matrix would initially be applicable only to technical workers on the shop floor and would not be for administrative or non-technical employees. Discussions were held with management who agreed that the recommendation could be implemented.

A team was formed to develop, agree and present the new competency matrix. The team was made up of the floor manager and a number of supervisors and team leaders and the finance department who are responsible for salaries.

In terms of developing the matrix it was agreed that the competencies should contain specific and measurable indicators. The team developed the matrix over a period of two weeks. It is now being applied in the welding department.

In developing a new competency matrix it is essential to understand the roles and responsibilities of individual positions within the matrix. So, a second and immediate output from the exercise was that the team also developed a series of new position descriptions.

### **IMPACT OF CHANGES**

The introduction of a competency matrix may be a small change but as the diagram above shows it can have a large impact on the company's HR policies and procedures.

The benefits of the new matrix and position descriptions that are already being felt include:

- Individuals can be categorised more easily and more accurately;
- It is possible to assign work based on actual levels of competence rather than 'seniority';
- It helps employees to see more clearly a career path;
- It helps employees and supervisors / managers identify training requirements;
- Supports the development of position descriptions;
- It helps the company understand current and future recruitment requirements.

As the management become more comfortable with a more modern approach to HR management, other changes to the system will be made and greater benefits will accrue.

The development of the competency matrix is an important step in the company's transition from passive to active / performance focused management. Although companies may have many changes to make, it is always easier to make the smaller changes first. This case highlights that a small change can have a big impact.