

# Chapter 1

## Popularity of Competency Models

### ABSTRACT

*Competency models are prevalent within various industries in business. Their popularity is due to the value they add to employee development and organizational capability. The popularity of competency models and specifically competency-based approaches are covered in this chapter. Competence-based approaches and how businesses in the market use them for gaining and maintaining a competitive advantage are also covered. How competency-based approaches have evolved into a new area of performance management that allows businesses to integrate existing organizational systems into a single performance system where they make more use of knowledge and become knowledge management organizations through competency that is modeled in their business is also covered. The chapter sets the tone of the book.*

### INTRODUCTION

This chapter sets the stage for what businesses could expect when adopting a competency-based approach, including competency models and competency-based performance management. The chapter discusses the popularity of competency models and their positive effect on industry when used as a strategic tool. When businesses select competency-based approaches, they can expect overall business performance improvement. The chapter provides

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a tone that readers could expect to observe throughout the discussions (see *Table 2 Takeaways from the Chapter*).

Competency-based performance management is an effective tool for achieving organizational results when considering their utility for managing organizational knowledge and monitoring organizational behaviors of performance. Organizational competencies or core competencies utilized in competency models identify the strategic organizational direction for guiding an organization and employees (Prahalad & Hamel, 1990; Teece et al., 1997; Teece, 2018).<sup>1</sup> Such performance management leads to the achievement of business outcomes. Competency-based performance management is more effective than traditional performance management systems and offers opportunities for skill development and organizational capacity building.

Businesses in today's economy have experienced changes brought by multiple eras, from the industrial age to the digital age to the gig economy to the era combining the features of the preceding ones with knowledge management in their efforts to gain a competitive advantage. Therefore, businesses are becoming knowledge-based organizations and organizations that approach their resources from a competency-based perspective.

Knowledge allows organizations to maximize business resources and assets through control and deployment. Therefore, knowledge and the management of its business knowledge has been a driver for businesses in today's marketplace with businesses' ability to effectively plan, coordinate, disseminate and acquire knowledge (Omotayo, 2015). All are organizational factors critical for ensuring organizational readiness and competitiveness for their short and long-term business viability (Foss & Pedersen, 2002; Grant, 1996). Combining knowledge management and competency-based management in a single system allows businesses to meet those critical factors. Knowledge management creates activities for which learning occurs and provides knowledge through acquisitions beneficial to the employees and organization. The theory of knowledge and the resource-based view of this concept in chapter 2 is about the practical nature of knowledge, precisely what it is, and how organizations and businesses should use it. Therefore, it addresses how businesses can create knowledge management environments and integrate competency models for effectiveness.

Organizational competencies are the strategic direction that guides the employees within the competency frameworks of an organization's strategic approach. Competency models provide the mechanisms for the factors of knowledge management to occur in controlled, effective, and collaborative ways. Competency models allow for the sharing of knowledge and the building

of organizational capacity. According to Al-Haddad and Kotnour (2015), positive outcomes are expected when incorporating knowledge with any type of change management. Best-in-class businesses (in terms of performance and effectiveness) are those that have competency-based management systems. They are businesses that also incorporate knowledge management systems and competency-based approaches to managing for success effectively.

As pointed to in the Preface, the discussions will examine how to align business processes and procedures, management systems, and business objectives and goals under competency models. Businesses are committed to improving business practices of performance management, who wish to achieve their business outcome, and who wish to have consequences related to tangible business outcomes rather than business routines. Here is the primary question that must be asked:

Are the organizations equipped with performance systems achieving the desired outcomes and making a positive difference in their organizational performance and effectiveness?

This book answers the question. Competency-based performance management systems and approaches provide real business consequences that most organizations are seeking. If businesses identify organizational competencies as strategic tools and utilize them in their strategic efforts, positive business consequences achieved.

For businesses to keep pace, they must develop and incorporate a performance management system. The system of choice has been there for many industries in the 21<sup>st</sup> century to incorporate organizational competency models. The companies of Google, Microsoft, BP, GE, Bank of Montreal all have moved to a competency-based approach because of the advantages it offers to today's workforce (Pulakos et al., 2019; Shet et al., 2019).

Engagedly (n.d.) furthers the notion about companies moves towards competency management systems. Engagedly describing them as companies that have redefined their performance system with features of competency-based management. The newer systems offer the companies Engagedly identifies with practical systems for today's agile work environment. In chapter 8, specifically, discusses activities organizations should consider. Those activities fall within a competency-based approach. They create agility that led to organizational successes, as Engagedly (n.d.) names reasonings why the following eight companies have moved to competency as a management system. These companies include Kelly Services, Adobe, Deloitte, Juniper

Systems, GE, Microsoft, Accenture, and Goldman Sachs (Engagedly, n.d.). Their reasoning varied, but they theme around the agility the systems of competency management provides was not related to the system they had before the change.

As competency models have proven to be agile for businesses' changes, they are easily adaptable to businesses. Competency models allow businesses to streamline their approaches to meet business desires, maximize organizational assets and resources, and precisely align their strategy with the actual work associated with organizational outcomes.

Competency as a concept was first observed scientifically in the United States in the 1970s in David McClelland's seminal work—*Testing for Competence Rather than for Intelligence*—in which he talks about proficiency over aptitude testing, which leads to success in life and a job. McClelland's works eventually led to a competency revolution in the United States. This revolution of competency modeling picked up steam in the 1990s. Businesses began utilizing organizational competencies and competency models as solutions for meeting their business needs and objectives (Prahalad & Hamel, 1990). Businesses have utilized organizational competencies primarily as tools that human resources management used them exclusively to identify gaps, recruit, retain, select, reward, and train employees. At a macro level, in the business sector, earlier, the employer developed competency through the job description and training (Schippmann et al., 2000), paying little to no attention to the organizational responsibility as organizations have a responsibility for developing its intellectual property, the employee, to accomplish its organizational strategic objectives (Dubois et al., 2009; Lawler, 1994). Organizations' lack of attentiveness continued until recently, but now businesses have begun to ensure that organizational competencies linkage to performance and effectiveness as outcomes. Early in the development of competency modeling, scholars argued for a need to shift focus from everyone in the organizational environment having the same competencies and overall measures to an individualized approach aimed at tailoring a person and their competencies (Lawler, 1994; Morgan & Schiemann, 1999; Schippmann et al., 2000). Although scholars had robust debates in this regard, their assumptions lacked empirical evidence until more recently. Empirical evidence recently provides a more extraordinary understanding example; Shet et al. (2019) found that leadership competency used with a leadership competency model positively correlates with organizational effectiveness and accelerates an individual's development as an organizational leader. Long back, scholars had distinguished differences in competencies needed and

used by those in managerial roles versus those that are not (Boyatzis, 1982). Managers have similar competencies but rely less on technical competencies than on leadership competencies; this attribute classifies leaders as average and superior performers (Boyatzis, 1982; Egon Zehnder International & McKinsey & Company, 2011; Shet et al., 2019). Specifically, Shet et al. argue that competencies should be tailored to the individual's or position's need and focus on the organizational role the individual holds, which would positively impact the individual and the organization by meeting the desired performance outcomes, thus supporting the notation of linking organizational competencies to an organization's strategic outcomes.

Focusing on leadership competencies is not a new phenomenon, as Leadership has a more significant impact in organizational environments due to a leader's influence over employees (Li et al., 2019). However, in today's era (see Table 1), the difference is regarding who is precisely in focus, what skills are under development, and the overall recognition value of devoting to that development by an organization.<sup>2</sup>

According to Brandon Hall Group (2016), among the surveyed organizations, 31% of the organizations claimed that staying with or joining an organization depended on the opportunity for developing leadership skills. This finding solidifies the views of executives and employees and is consistent with the findings of Shet et al. The discussions in this book will provide the basis for the emergence of a new concept for developing competencies that should be a part of a business framework to meet business needs.

## **Knowledge Management**

The organizational management of knowledge and knowledge sharing components have a significant organizational impact on business outcomes.<sup>3</sup> Knowledge sharing of particularly tacit and explicit knowledge develops competencies that lead to the development of others and the building of organizational capacity (Wang et al., 2014). Knowledge sharing relates to organizational learning and formal, informal, and cultural learning, leading to performance outcomes and internal effectiveness. Knowledge sharing in an organization is a co-equally shared endeavor for individuals and organizations. Accordingly, knowledge-related resources lead to superior sustainable performance (Bogner & Bansal, 2007). Businesses rely upon knowledge and skills as intellectual assets (Sveiby, 1997), and these assets are essential for competent organizations. Wang et al. (2014) found that knowledge

sharing leads to enhanced intellectual capital and an organization's positive performance in its operation and finances. Studies and reports are now providing meaningful information about what types of knowledge sharing competencies should be developed and utilized by leaders in organizational settings to help achieve desired organizational outcomes (Bartol & Srivastava, 2002; Ulrich & Smallwood, 2004; Johnsson, 2015; Phong et al., 2018; Shet et al., 2019; Sonmez & Adiguzel, 2020).

## **Organizational Performance**

In competency-based management, two identifiable streams contribute to performance: individual and organizational contribution (Brudan, 2010). The American Society for Training and Development (ASTD) Public Policy Council has identified that people and knowledge anchor the 21<sup>st</sup> century's knowledge economy.

According to the surveyed executives conducted by Morgan and Schiemann (1999) and according to their findings, it is a challenging task for businesses is to measure people's work behaviors to their performances and articulate those behaviors into skills or practices that are beneficial to the business. In a 2016 survey conducted by Brandon Hall Group, 74% of executives surveyed said defining competencies to job role is essential to business; however, only 7% had a means of measuring. Additionally, a third of the executives reported not having performance targets in place for employees. Indeed, in today's time, what Morgan and Schiemann acknowledged in 1999 was that it was necessary to measure people's work behaviors to achieve optimal business performance. However, it was not easy to measure people's work performance, define certain work behaviors and understand work behaviors in a quantifiable way. Morgan and Schiemann identify that measuring employees' performance and work efforts directly link to the organization's strategic outcome. The subject of Morgan and Schiemann's study was primarily financial institutions. Their finding suggests that there is a relationship between customers and financial outcomes.<sup>4</sup>

The motivation of people for which accomplishments occur is through Leadership (Drucker, 1999). Organizationally, the role has a dichotomy—that of an employer responsible for the well-being, resources needs, and worker compensation. Workers and employers are responsible as developers to make themselves and the organization successful in achieving its business objectives. Drucker's (1999) approach to management places the responsibility

of managing employees and developing them at the heart of Leadership. He emphasized the decentralization of activities.

Further viewing competencies as tangible and intangible resources transformed to make a company competitive (Drucker, 1999). Though Drucker's focus at the time was primary on leaders or those in the position of Leadership. The principles he offered noted the responsibility of managers and workers' efforts in a relationship if they are going to be successful. The dichotomy that an organization has is a vested interest in its success and the success of its workers. At times they operate in sync, and at the time, they may operate as polar-opposites. An organization's performance measure is not as difficult as measuring an individual's efforts, which may require the employee to upskill to seek opportunities more appropriate for their skillsets. The organization obtains the proper measures and monitoring systems based upon what they are hoping to accomplish.

As discussed earlier, competency models have been historically associated with human resource management, serving as a system for solely carrying out those functions. Organizations have guided this approach through the lens of human resources management programs, such as job analysis, recruitment, hiring, skill-gap identification, training development, and performance appraisals (Green, 1999). Performance is measured based on how well human resource management is carried out and returned results on those functions. From a behavioral perspective, competency development is associated with job requirements for a specific position (Klemp & McClelland 1986; Spencer & Spencer, 1993); however, noticeable missing from this particular perspective are the employee skills desirable skills to the organization. In the current era Table 1, the construction of a competency model in an organization should be relevant to organizational performance and effectiveness.

In the era of competency-based management, a competency-based management system is the one that systematically utilizes human resources within an organization by combining individuals' skills with business planning, whereby determining the capacity based upon the available competencies employees have against the organizational needs. Chapter 3 provides an example of the previously described integration. The "*V*" *Shape Integrative Alignment Model* describes the operation levels in a vertically and horizontally integrated model. From Firm-level decisions about what competencies it wishes for the organization. To organizational capacity that covers strategic HRMS, Systems of support, and auxiliary business functions. This level of the organization is where a clear distinction occurs.

*Horizontal Integration Organizational Alignments:* cuts across the organization and direct lines of a chain-of-command structure (e.g., project managers may be responsible for as project may affect multiple areas of an organization). Horizontal integration is likely non-operational activities as well as employees. In the framework of the “*V Shape Integrative Model*”, these are the auxiliary business functions. Horizontal integration with organizational core competencies, strategic human resources processes and policies, and organizational processes operating together optimally going across rather than through direct lines of direct reports and chain-of-commands.

Employees’ skills and abilities have direct linkages to organizational goals, and this is when employees operate with proficiency; organizational success is the expectation. A competency-based management approach measures employees based on their work behaviors (Audenaert et al., 2014). Organizations link people’s skills to performance as a strategic connection, not a human resource management connection. Competency-based management has an advantage over traditional systems, as it controls human resources in real-time through the identification, allocation, and reallocation of human resources in strategic ways. Competency-based management provides businesses with quantifiable and qualitative information about the work done by the employees.

## **Competency Popularity**

Competencies, competency models, and competency-based management have become prevalent mechanisms use in the business sector. At the time of its conception, competency was a tool to distinguish the average performers from the superior performers. As discussed, McClelland’s works have made strides with competencies usage and how performance at work measurement occurs in the United States. Competency as an approach has taken a foothold in many industries. Schippmann et al. (2000) surveyed companies, and 75–80% of respondents reported having some type of competency approach in place. Cappelli and Tavis (2016) identified companies that had jettison their performance management system for newer systems that improved their evaluation and engagement with workers to be more time to the worker’s real-time opportunity and the manager/coach. This approach, a novel one, had over 60% of multinational companies surveyed reporting. Either they had abandoned, or they intended to abandon annual reviews for employees. As



discussed previously, many brand companies have since adopted competency to support business performance needs.

Competency models are practiced widely among industries, consultants, practitioners, and academics. The value of competency modeling and competency-based management systems is well established (Lombardi & Saba, 2010; Lucia & Lepsinger, 1999; Schippmann, 1999; Sanghi, 2016). In a survey by Lombardi and Saba (2010), results indicate that 60% of best-in-class organizations build a competency framework to assess performance outcomes. Best-in-class organizations are 32% more likely to have a competency model in place and competencies defined for all roles (Marin & Bourke, 2009). Similarly, Brandon Hall Group's 2016 study reports that according to 74% of the executives surveyed, defining competencies to the job role is essential to a business. Thus, all the survey results indicate that competencies are in utilization.

## **NEED FOR COMPETENCY MODELS**

Competency models are tools that are intertwined in organizational culture and are a strategy of execution (Bowen & Ostroff, 2004; Werbel & DeMarie, 2005). They are descriptions of work and aimed at accomplishing organizational targets. Competency models can be an organization's, a division's, or a unit's functional analysis of work applied to how people in organizations learn to incorporate behavior into their day-to-day lives. Therefore, competency models are in demand, as other performance systems and models cannot do the same (Korenková et al., 2019). Competency models call for distinguishing performers and focus on individual quality of work and classify performance as superior and average, whereas traditional performance systems only measure output. These models provide businesses with need-to-know information about the workers' performance. These models can segregate top performers from average performers (McClelland, 1973; Olesen et al., 2007).

## **Competency and Theoretical Background**

In the book *Enhancing Education Through Open Degree Programs and Prior Learning Assessment*, in chapter "Competency-Based Learning for Organizational Managers," The chapter re-center the conversation about competencies. The author concludes that when referring to its application

in a business setting, its terminology should be associated with occupational labor; this concept is born out of the studies conducted by McClelland in the 1970s in the United States with Foreign Service personnel (Harper, 2018). McClelland's competency measurement distinguished superior- and average-performing personnel.

The concept of competency, therefore, relates to labor. Avilar (2017) describes competence as what a person does in their job using their abilities. Competencies are personal behaviors that include skills, abilities, knowledge, personality, and personal attributes that are critical for work performance when taken together and used to perform work (Harper, 2018).

Practically speaking, the importance of competency development and the meaning that McClelland provided is undoubtedly true. Competencies are individual and organizational tools necessary for business success. In this book, Burgoyne's (1993) definition of the term "competency," i.e., which, when incorporated in labor, improves efficiency, is used for the discussion to follow. Most scholars agree that at the beginning stage of competency development, organizations must create a definition that can be used as an effective tool for individuals and as a resource for the organization (Lucia & Lepsinger, 1999; Sanghi, 2016).

The objective in the new era is how to be effective at using competency-based management systems for achieving organizational performance and effectiveness. However, the objective of this book is not to decide how to define competencies but to explore the usages of competency models. The book also explores the usage of competency models from a place of firmly ingrained performance, which needs to understanding for effectiveness. Therefore, it should be understood what competencies are before endeavoring to incorporate a competency model or the integrations of systems under a single competency framework.

## **Competency-Based Management Systems**

Organizations that operate in a dynamic economy may apply different resources and tools to achieve performance targets for their competitive survival (Foss & Pedersen, 2002; Grant, 1996; Spender & Grant, 1996). Competency-based management as a tool is the reaction at the individual and organizational levels to achieve an organization's expected outcomes. Competency-based management systems are now in a new and exciting era (see Table 1). Competency modeling should provide precision performance

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management. Competencies are not fuzzy or over-complex, but one size does not fit all (Schippmann et al., 2000). Competency-based management systems are tools to collect and analyze data (knowledge management) of employees, processes, procedures, and behaviors related to those processes and procedures that lead to effective performance. Competency modeling focuses on patterns of behavior that form a critical success factor and act as a strategic performance driver (Becker et al., 2001; Schneier et al., 1991).

In today's work environment, the competency-based management system retrieves valuable data from employees and organizational behaviors to influence the bottom line (Aviler, 2017). These systems provide predictive data analytics and datasets for functional purposes, either as human resource strategy or operational strategy. Performance management systems, including competency management systems, have almost solely been used as human resource strategies and competencies developed across an organization. Performance management systems have utilization exclusively as appraisal systems as the primary measure of performance (Özçelik & Ferman, 2006). Competency-based management in operations is a part of the new and current era that moves businesses away from that singular focus—the new era discussion throughout the book. More specifically, chapter 8 focuses on a new era of real-time performance and provides meaningful employment and management engagement. Cappelli and Tavis (2016) describe the

*Table 1. Distinguishing Factors of Eras of Competency-Based Management*

Competency-Based Management Systems	Previous Era	New Era
	Competency mapping	Competency mapping
	Annual Appraisal	Ongoing evaluations
	Assessing proficiency	Linking performance to organizational goals and objectives
	Linking competencies to individual's skill-sets	Linking performance to organizational skill need
	Overall system approach	Targeted approach
	Defining competency	Determining the impact on performance
	Knowledge and skills	Intellectual assets
	Talent acquisition	Knowledge management
	Utilizing organizational effectiveness and performance management as exchangeable items	Distinguishing organizational effectiveness and performance with a framework that allows for management to be coaches
	Human resource strategy	Operational strategy

approach to the organization giving immediate feedback to employees and developing employees through coaching during a period that was said to be novel. Cappelli and Tavis (2016) and Pulakos et al. (2019) address newer approaches based on competency models and competency-based performance management systems.

Table 2. Takeaways from the Chapter

- Competence-based approaches are competency models, competency-based performance management systems, and systems of integration of systems into competency modeling.
- Competency Models are tools that are intertwined in an organization's culture and serve a strategy of execution.
- A competency model is the set of skills and abilities necessary for a firm to its outcomes. Competencies are the skills, abilities, and performance tasks that individual's carryout to perform their work.
- The competency-based management system is a performance assessment system that allows businesses to keep pace with their competitors. These are tools for collecting and analyzing data (knowledge management) of an organization's employees, processes, procedures, and behaviors related to those processes and procedures that lead to effective performance.
- Competency-based management approaches can provide predictive data analytics and datasets for functional purposes and are used either as a human resource or operational strategy.
- Best-in-Class Businesses are measured using metrics that measure an organization's average performance compared to that of the competitors within the same industry behavior. The best-in-class organizations lead in their performance. They have competency related to the system for which they are measuring.
- Organizational competencies help develop human resources and intellectual property, accomplishing objectives, and obtaining and maintaining competitive advantages.
- The effectiveness of competency models new era focus on two streams of importance working together in a collaboration that drives business outcomes employee and organization.
- Leadership competencies are necessary and should use a valid leadership competency model, as this impacts organizational effectiveness.
- Knowledge sharing affects organizational performance and effectiveness and individual effectiveness.
- Knowledge sharing in organizations has two streams that work in collaboration: individual and organizational.
- Framework and function of competency models and competency-based management systems produce organizational performance and effectiveness.
- A strategic connection between people and performance is necessary; moreover, a human resource management connection, i.e., the connection among recruitment, hiring, and retention, must have an effective competency-based performance management system. However, it should not be the exclusive system, and all subsystems should support the organizational core competencies.
- A competency-based system has strategic and real-time value to control human resources by identifying, allocating, and reallocating personnel.
- Competencies are work behaviors that are observable, distinguishable, teachable, and measurable.
- Manager-specific competencies influence the organizational strategic objectives beyond a unit level of work.
- Traditional performance management systems have been utilized as human resource tools and rely on appraisal systems to measure performance.

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## ENDNOTES

- <sup>1</sup> Chapter 3, section *Organizational Alignment* explicitly discusses the strategic approach to an organization's development of the vertical, horizontal, and combined integrations when policies, behaviors, and systems and subsystems operate together bring effectiveness.
- <sup>2</sup> Section, Development Pillars. See, chapter 5 section, *What are the skills needed for organizational success and how an organization and employee work together collaboratively to develop?* Chapter five broadly addresses Leadership and skill-building from a personal and organizational perspective. Chapter 6, more exclusively, focuses on the organizational leader for which there are distinct differences that individuals should be aware of working in an organization's competency model.
- <sup>3</sup> The management of knowledge and knowledge management, which includes knowledge sharing chapter 2, provides readers with assessment tools for evaluation and preparing organizations to cultivate the organization towards knowledge management. See Chapter 2, specifically, The Competent Organization.
- <sup>4</sup> Evidence suggests competency models when are in place there is the outperformance vs. those organization who do not have them (Pulakos et al., 2019; Shet et al., 2019). More importantly, the relationship between customers and the financial outcome through the behaviors of employees and organizational goals. For goals of the competency model, return-on-investment (ROI) is a critical component to have verifiable information; see chapter 7, Competency Models' Return on Investments.