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COMPETENCIES AND COMPETENCY MODELS: DOES ONE SIZE FIT ALL?

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Although competencies are not new, paying for competencies is rapidly gathering attention. In many firms, the rate of change is so great that the individual job has ceased to be useful as the "atom" around which organizations and human resources practices are structured. Job-based pay has outlived its usefulness in such companies. Firms are searching for a new logic to pay and a new basis for salary structures that are better aligned with organizational strategies, structures, cultures and other HR practices. At this point, competency-based pay is the most promising base pay alternative to job-based pay.

The naive observer might expect to find a tremendous variety in the competencies that companies are rewarding. The competency-based pay approach is new, and there is no obvious set of "best practices" at this point. Moreover, managers are adopting competency-based pay to meet organizational needs better, and such needs vary from one organization to the next.

The seed for this article is an observation that the authors find paradoxical. While it seems there should be great variety in the competencies that are the basis for competency-based pay, the authors' experience suggests that competency-based pay plans look much alike from one firm to the next. In this article, the authors ask why this appears to be happening and whether it is desirable.

BUSINESS STRATEGY AND REWARD SYSTEM DESIGN

A strong reason for changing pay processes and systems is to encourage development of behaviors and skills that reflect business strategy and organization design (Lawler 1995). Values, processes and pay structures may vary from organization to organization and influence how pay gets the message across. However, strategic alignment is the goal. Pay systems designed to communicate strong messages of strategy and direction are necessary to generate organizational performance. On the other hand, pay systems that emphasize values such as bureaucracy, entitlement and internal equity may not be practical for organizations that must compete for business and talent (Schuster and Zingheim 1992).

Thus, competencies may be considered as talent-based interpretations of business needs. This view defines competencies as demonstrable characteristics of the person, including knowledge, skills and behaviors, that enable performance (Ledford 1995b). Based on this definition, competencies add value by communicating what people must know to help the business succeed. This is imperative during competitive times. Challenged organizations commonly need to get attention for new solutions because existing approaches, while comfortable, no longer add value.

If competencies and a competency model are to support new directions, the source of competencies may include the following:

- *Strategy, structure and culture.* Organizations need to respond to continuous changes in the business environment and the challenge of seeking competitive advantage. To help implement new strategic direction, people should expect to be made aware of how they can help.

- *Best practice of market leaders.* Human resources practices may be emulated from organizations that have enjoyed success realigning people processes and systems to support business change. Successful organizations tend to have experience in interpreting and communicating new human resources directions.

Emphasis on strategy may eliminate internal sources of competencies from consideration if they sustain the no-longer-functional status quo rather than communicate necessary new directions.

THE STRATEGIC DEFINITION OF COMPETENCIES

Competency- and performance-based pay are necessary partners in linking rewards to business strategy and direction. Performance-based pay is needed to encourage the application of acquired competencies to generate desired outcomes. Competencies are most likely to serve as a learning platform for performance.

Support for the strategic competency definition also comes from interest in becoming a learning organization. Companies hope to outlearn their competitors by making knowledge a tool of advantage (Senge 1990). This is especially true for knowledge-based work that most believe will continue to account for much of needed productivity, quality and other value-added gains (Quinn, et al. 1987).

James Collins and Jerry Porras, in their best-selling book *Built to Last: Successful Habits of Visionary Companies*, tell an interesting story about the competitive advantage of companies with a sustaining core vision. They examine the life histories of 18 "visionary companies," which are companies that have been very successful and influential over a period of decades, along with a set of matched competitors. For example, they contrast Ford Motor Co. with General Motors Corp., General Electric Co. with Westinghouse Electric Corp., Motorola with Zenith Electronics Corp., and Procter & Gamble Co. with Colgate-Palmolive Co. Both the visionary and comparison companies are successful, but long-term performance indicates that the visionary companies are "gold medalists" in their industries while the comparison companies tend to be "silver and bronze medalists."

Collins and Porras argue that the development and maintenance of a compelling core ideology distinguish the visionary companies. Figure 1 on page 58 shows examples of the core ideologies. Human resources practices such as selection systems, management and development, communication and goal setting convey and reinforce the firm's core ideology. These practices signal what is most important to learn and do to succeed in the company.

Collins and Porras devote little attention to pay systems. However, it is a logical extension of their work to suggest that there should be a direct connection between pay and core ideology in high-performing, visionary companies. Specifically, companies should pay for competencies that are aligned with their core ideologies.

There is no specific set of core ideologies that apply to all visionary companies, but certain themes are common to them. The authors expect that companies that adopt competency-based pay that is in line with their core ideologies would also reward these characteristics. The most prominent principles are innovation, product quality and customer service, individual initiative and growth, integrity, continuous improvement and self-renewal, and technical superiority.

Figure 1

SAMPLE CORE IDEOLOGIES OF SELECTED COMPANIES
American Express Co.: customer service, reliability, initiative
The Boeing Co.: leading edge, pioneers; challenges and risks; product safety and quality; integrity and ethics; aeronautics
Citicorp: expansionism; being out front (best, innovative); autonomy and entrepreneurship; meritocracy; aggressiveness and self-confidence
General Electric Co.: technology and innovation, balance among stakeholders, responsibility and opportunity, honesty and integrity
Hewlett Packard Co.: technical contribution, respect and opportunity for HP people, contribution and responsibility, affordable quality, profit and growth
Procter & Gamble Co.: product excellence, self-improvement, honesty and fairness, respect for individual
3M Corp.: innovation, integrity, initiative and personal growth, tolerance for honest mistakes, product quality and reliability, problem solving
Wal-Mart Stores Inc.: value to customers; buck conventional wisdom; partnership with employees; passion, commitment, enthusiasm; run lean; pursue high goals
Walt Disney Co.: no cynicism; consistency and detail; creativity, dreams, imagination; "magic"; "bring happiness" and "American values"

Source: J.C. Collins and J. I. Porras, *Built to Last: Successful Habits of Visionary Companies*, HarperCollins, 1994

OVERVIEW OF COMPETENCY PAY MODELS

Compared to the amount of attention competency-based pay has attracted, relatively few competency pay systems are operational. To explore competency models actually in use, the authors reviewed the competencies that 10 companies reward. These firms are a convenience sample. They represent the first 10 examples of competency-based pay the authors encountered in their work. They do not represent competency-based pay systems that the firms adopted based on the authors' recommendations, so the consistency reported below is not attributable to the authors. A convenience sample was used because there is no alternative. No representative survey data exist to indicate the specific competencies that such systems most commonly reward.

Figure 2 lists the most frequently mentioned competencies rewarded in these companies. The number of competencies in each model ranges from six to 13. The mode is nine competencies.

The parallel between the visionary principles documented by Collins and Porras and the competencies used in the 10-company overview is interesting. Even limiting exploration to the most prevalent competencies, the competencies can be defined in terms of the visionary principles.

To be sure, some frequently rewarded competencies are not prominent on the list of visionary principles (e.g., communication and team orientation). However, these are reasonably viewed as skills needed to realize other principles. It is also interesting that individual initiative, which is very often emphasized in the companies in *Built to Last*, is present only in the form of leadership in the list of rewarded competencies. The authors wonder if this competency is being underemphasized currently.

The authors are struck by the similarity in the lists of competencies rewarded in competency-based pay plans used by different companies. If companies are attempting to gain competitive advantage by rewarding competencies that are closely related to their business needs, why is this happening?

There are a number of possible explanations. For instance, organizations may be studying what makes for great companies. They may be looking more closely at premier companies such as those described in *Built to Last*, or they may be going through their own self-discovery processes. Further explanations of why similar competencies are being used include the following:

- *Organizations share environmental challenges*. Perhaps companies share common business environments that dictate common solutions. This means they have diagnosed their competitive environment and have concluded that shared problems deserve shared solutions. This suggests that environmental challenges are generic and global.

- *Organizations share common shortcomings.* It is possible that companies determine they fall short on a number of similar capabilities they believe are critical to success. For example, they may have an incomplete emphasis on customer care, ineffective communication or the inability to collaborate well. This would support a concept of not only shared challenges but also shared shortcomings.

- *Organizations seek advantage through execution.* Although many companies share business strategies—and, apparently, competency strategies as well—they may be seeking unique advantage through better execution. This would mean that organizations select the competencies that best communicate their business strategies, and they count on implementation to achieve an advantage. This would suggest that wherever competencies come from, and regardless of which competencies are deployed, execution is the key.

- *Organizations have discovered the "ultimate" competency model.* Reviewing the companies cited by Collins and Porras and the 10 companies in the authors' overview sample, perhaps a "universal" competency model and associated battery of competencies exist. Pay professionals will recall that the days of point-factor job evaluation resulted in the "discovery" of several "ultimate" job-evaluation factors. The same situation could exist for competencies. If this is the case, organizations need only select from a limited list of competencies.

- *Selection of competencies is common sense.* It is possible that organizations are choosing competencies as a matter of common sense after reviewing available alternatives. Companies could arrive at the most common competencies in the authors' study—communication, concern for customers, improved technical expertise, more effective innovation and so forth—based on an understanding of what makes sense relative to the values, behaviors and skills that are required for organizational success. Clearly, business literature is ripe with advocates for these widely shared principles.

- *Organizations prefer to copy competencies from successful role models.* Walt Disney Co., AT&T, IBM Corp., Motorola and others are popular role models for many practices, including those for human resources. It is possible these exemplary firms serve as examples for competencies even though they may not deploy competencies or competency-based pay. For example, performance goals and initiatives in such areas as communication, customer service and results orientation that are part of successful programs at leading firms could be sources of copied competencies. This would suggest that benchmarking is driving competency selection and application.

- *Selection of competencies is not a key issue.* Organizations could be in such rapid flight from the use of traditional pay systems that communicate values inconsistent with where they are going that any competencies will communicate better values, directions and goals. This would suggest that any set of principles that supports change is preferable to the values and directions commonly supported by traditional pay systems. If this is true, competencies are being used to unfreeze embedded practices that are viewed as dysfunctional.

- *Someone is marketing specific competencies.* Advisers in the business of selling competencies and competency models are suggesting what the best practices are in competency development. Clearly, some organizations are taking this advice. It is possible that the influence of key advisers and consultants is resulting in similarity.

These alternatives may combine in some way to account for widespread similarities in competency selection.

Figure 2

SHARED COMPETENCIES IDENTIFIED IN A 10-COMPANY SAMPLE

Competency	Frequency of Use
Customer Focus	8
Communication	7
Team orientation	6
Technical expertise	6
Results orientation	6
Leadership	6
Adaptability	5
Innovation	5

WHICH ALTERNATIVES OFFER PROMISE?

Battle lines are drawn concerning where competencies should come from and which ones should be used. Strong support exists for the development of competencies that provide unique advantage over competitors (Hamel and Heene 1994). This argument suggests that unless unique competencies provide a source of competitive advantage and add value to an organization's customer relationships, the firm will not have needed skill, behavior and knowledge advantages.

An opposing argument proposes searching for competencies in a competency "dictionary" that is strikingly similar to a dictionary of traditional job evaluation factors (Spencer and Spencer 1993). This position implies competencies can be "purchased" and need not be unique to provide competitive advantage.

A potential inequity in this battle is that the selection of "unique" competencies is extremely difficult, and the purchase of a dictionary of ready-to-use competencies is very easy. There is no "marketing effort" supporting the position of unique competencies that provide differential advantage. On the other hand, marketing of the dictionary can be actuated by a powerful sales force that may not provide a balanced view of the available alternatives.

Given the alternative sources of competencies and competency models, the actual strategies adopted by organizations will probably result from a combination of the following factors and beliefs:

- *Competencies are common sense, specific competencies are not critical and an ultimate competency model exists.* These three reasons may be parts of a single reason: Many organizations may need a starting place for building competence because they lack ability to deploy competence strategically. This makes sense if companies plan to use an initial set of ultimate competencies and will eventually evolve their competency model into one that is unique once they have instituted competency development at the rudimentary level. This would clearly be a catch-up strategy, but it may prove practical and workable if it is not essential to deliver "unique" competencies from the start. This is consistent with a nimble view of compensation that suggests getting started with a pay transition process and fine-tuning as the process unfolds (Ledford 1995a).

- *Competencies are sold; competencies are copied from role models.* Buying and copying competencies are clearly reasons for why organizations deploy similar models. While this does not result in the delivery of unique competencies, it does get organizations going on the competency deployment process. To a great extent, the ability of an organization to replace purchased or copied competencies with their own competencies, definitions or interpretations eventually will determine which firms gain unique advantage from competencies and competency models. From the 1960s through the 1990s, companies have had great difficulty breaking free of one-size-fits-all job evaluation models once they were implemented. If the same proves true of competencies and competency models, those that buy or copy may be adapting practices that were recently abandoned by others in the search for unique advantage. The study of best practices may measure what was rather than what will be for future-focused companies.

- *Organizations share challenges/shortcomings.* Shoring up shortcomings to address challenges is one reason organizations seek advantage through the deployment of competencies, not only in matters of pay but also in development, selection, succession, performance management and other aspects of human resources management. Organizations that diagnose their situations and determine the match between their challenges and their shortcomings may have common ground in the selection of competencies. For example, the past decade has provided ample evidence that concern for customers is both a challenge and a shortcoming for most companies. Companies that match challenges, shortcomings and solutions early are most likely to deploy future oriented competencies effectively.

- *Organizations capitalize on demonstrated strengths.* Organizations may want to emphasize even more strongly what they do better than their competitors to provide customer value. For example, 3M Corp. may want to emphasize innovation because it already has a competitive advantage in that area. Walt Disney Co. may want more and more "magic" because it clearly "outmagics" its present competitors. Wal-Mart Stores Inc. may believe continuing to buck conventional wisdom in retailing is the way to keep its advantage. This view suggests that advantage often comes from more of the same good moves rather than introducing new moves.

- *Organizations gain advantage through execution.* This option is a potential partner with any of the other options, and it is the most powerful and promising. Few companies are able to expend extensive time and effort studying and overstudying needed competencies because they are deficient in many areas of competency pursuit. While organizations share strategies, advantage goes to those that execute effectively. If this were not true, it would be possible to turn the visionary principles of companies such as Disney and Wal-Mart into a "dictionary of visionary principles," and the mere fact of including these as competencies in written company material would provide advantage. Reality is that execution and definition are the keys to success.

In short, execution is as least as important as which competencies are selected.

DEFINING COMPETENCIES: A ROUTE TO ADVANTAGE

Are organizations designing competency models based on the obvious? What firm would not support something to do with the most prevalent competencies in the l0-company overview? Everyone is for improved communication, more innovation, better customer service and better teamwork. Merely including the "headline words" in strategy fails to add value.

Uniqueness most probably does not come from what the competencies are called but from how they are defined in terms of which behaviors, skills and knowledge areas are important. Examples may suggest why this is so:

- *Customer focus.* For a competency concerning customer focus, it is essential to determine whether the competency should be defined in terms of trying to sell more to the customer in the same way as before or finding a way to "partner" with the customer to benefit both parties. The definition of the relationship between the company and the customer is changing, as is the role people play in making this change a success. What the customer/company role is now and what it should be defines how change is to be executed. This presents the opportunity to evaluate progress in terms of moving from the type of relationship that is judged to be unsatisfactory to a new type of relationship that will provide shared advantage.

- *Communication.* How communication is defined is critical. Does this mean increasing the amount and frequency of one-way communication, or moving to communication that is multidirectional? Does communication refer to the method used and/or the message exchanged? If clarity of top-down communication is no longer the only communication-related competency and multisource exchange of many types of information and knowledge is now the desired competency advantage from the communication competency will come from the definition and not merely having the competency.

- *Team orientation.* Is the competency's intent to communicate that people must "get along with each other" or "work in teams"? Does team orientation mean communicating the importance of transitioning from a situation where individuals are accountable to where people in teams share accountability? Does the concept of team orientation imply shared fate among team members, or does it imply the allocation of accountability to a team leader or manager? What is the "team" in the context of this competency? Is it the entire organization? A business unit? A self-directed work team? A project team? A quality improvement team? Is team orientation a state of mind or a practice? Advantage comes from presenting the concept in the organization's context and defining how advantage will be gained.

- *Technical expertise.* Is the intent to encourage people to learn more about their specific "job," or is it to learn broader roles? Does the message say the company values multiskilled people more than "skill specialists"? Are some specific skills or knowledge areas more valued than others? Is expertise defined in terms of depth as well as breadth? How does a technical expertise competency compare in value with more strategic competencies such as customer focus or team orientation? Will the organization accept an individual contributor who has a high level of technical expertise but no skill in sharing or willingness to share knowledge with others? The balance between technical expertise and strategic competencies is important and needs definition within the organization's context to provide advantage.

- *Results orientation.* This competency may be confused with a need for organizations to make sure competencies are actually applied to generate out comes. Is this the propensity to apply knowledge and skill to generate measurable outcomes, or is it a willingness to take action without concern for competency and skill? Is it a future-oriented competency, or is it one that is defined in terms of past results achieved? Is it a competency at all, or should the concept of results orientation be communicated through a different tool such as performance-based variable pay, which measures goal attainment rather than competency development? How this competency is balanced with others is important.

- *Leadership.* Does leadership imply a transition to team-based coaching and facilitation? Does leadership include behaviors that are decisive and singular of focus? What are the ingredients of leadership? How does one recognize an effective leader? The concept of leadership is popular. Readers of contemporary management literature cannot ignore the concept. However, defining what this means in the context of a specific organization and how it leads to advantage is critical.

- *Adaptability.* Is this the ability to change and apply other competencies to different situations? Does this mean compliance with new orders and directions? Is it the ability to "read" situations and take responsibility for acting accordingly? Is adaptability an active or passive competency? It is important to define the competency either in terms of the ability to follow orders in an acceptable manner or in terms of the "thinking person's" view of adaptability.

- *Innovation.* When a competency defines innovation, does this apply to setting up an organizational unit that is responsible for creativity, or is everyone accountable for creativity? What is innovation? Is it practical ideas that are measurable in terms of value added to the business? Does it involve innovation that may not add business value? Where and how innovation is applied makes a difference of major importance.

Competency definition is critical. As the old saying goes, "Be careful what you ask for. You might just get it!"

Starting with the business strategy and the role people will play in making the strategy a reality makes clear sense as the foundation for developing competency models and defining competencies. The "secret sauce" of competencies may be to define both "before" and "after" competency circumstances to suggest where people may be and where they need to go to demonstrate competency at a satisfactory level. In simple terms, a diagnostic model can be developed to define competencies. (See Figure 3.)

The authors believe one unique competitive advantage of competencies comes from how they are defined, and they suggest a dictionary of definitions is not as useful as might first be believed. However, the competency dictionary may be a source of definitions to avoid to gain unique competitive advantage, unless definitions are significantly customized to the specific company or organizational unit within the company.

Figure 3

A DIAGNOSTIC MODEL TO DEFINE COMPETENCIES

Existing Behavior	Targeted Behavior
CUSTOMER FOCUS	
"Sold to"	Consulted with
Adversary	Partner
Financial measures	Financial, quality and customer satisfaction measures
Talked to	Listened to
Company needs primary, not customer needs	Balance company and customer needs
Short-term perspective	Long-term perspective
COMMUNICATION	
Top-down	Multidirectional
Limited sharing	Extensive sharing
People "told"	People "involved," listening to people
Emphasis only on communication tool	Emphasis on message and communication tool
Limitations on information	Share information needed to perform
TEAM ORIENTATION	
Principle of cooperation	Principle of collaboration
Accountability rests elsewhere	Accountability and shared fate rests with team
Principally individual	Team-based
Teamwork	Team information
TECHNICAL EXPERTISE	
"I am my job"	Role flexibility
Specialist only	Multiskilled
Technology prevails	Technology and strategy balanced

Existing Behavior	Targeted Behavior
RESULTS ORIENTATION	
Wait for others to act	Make things happen
Study to death	Take action
Top down only	Everyone makes a difference
Apply practical skill base	Apply entire skill base
Avoid conclusions	Move to end product/result
Use historic standards	Use stretch goals and higher standards
Avoid risk taking	Take prudent risk
Individual only	Shared fate
Financial measures	Financial and strategic measures
LEADERSHIP	
Command and control	Inspire goal achievement
Manage and supervise	Coach and role model
Individual performance	Team plus individual performance
"Do what I say"	"Follow my example"
Unilateral action	Decisive consensus
Techniques	Strategies
ADAPTABILITY	
"This is the way we've always done it"	Promote and initiate useful change
Focus on tasks/duties	Ready to change
Mass production, system certainty	Uncertainty is opportunity
Rigidity	Flexibility
Clarity required	Tolerate and be effective with ambiguity
INNOVATION	
Function "in charge" of innovation	Everyone innovates
Status quo	Create and foster changes
Ration resources	Pyramid with others
Routine problem solving	Creative problem solving

A MODEL FOR COMPETENCY SELECTION AND DEFINITION

The model for competency selection proposed by the authors starts with business strategy. Defining what the enterprise needs to do to thrive is essential. This definition subsequently is interpreted in terms of desired behaviors, outcomes and results people need to provide to help the strategy succeed. The role compensation plays is defined in the compensation strategy. Where competencies are part of the compensation strategy, organizations should explore the possible competency sources outlined here and select those competencies that fit their communication needs. Strategic advantage comes from defining and executing competencies to provide advantage. The model provides strategic alignment for competencies. (See Figure 4.)

Clearly, just selecting competencies is not a route to success. Even the rudimentary definitions provided in Figure 3 are just a starting place. The real challenge will be to define the competencies to provide the uniqueness that is needed to suggest how advantage can be gained.

Figure 4

A MODEL FOR COMPETENCY SELECTION AND DEFINITION

THE FUTURE

Person-based pay is probably a more powerful tool of business strategy than is job-based pay, especially for knowledge workers. Competencies offer a potentially fruitful opportunity that is worth exploration. However, in some instances the "rush is on" to replace problematic job evaluation systems based on internal equity, which create a strong focus on issues other than those that provide competitive advantage, with competency-based pay. Care is necessary to ensure that what is communicated provides value.

This preliminary review of competency selection and definition can be an initial step in serious exploration of competency-based pay and its implications for people and organizations. What is most important is how the transition is executed and undertaken. This requires mapping a strategy for change and ensuring it matches organizational needs (Zingheim and Schuster 1995).

Competencies will continue to receive close attention as companies migrate to organization designs that view jobs as excessively rigid and limiting. Competencies offer a powerful opportunity to communicate new values and directions. Paying for these competencies arms leaders with a major opportunity cost that puts money behind the message.

The question is what should be the source of competencies in the future. The authors suggest that similarity exists among competency models. Because of this, competencies should be selected based on business needs and strategy but, more importantly, they need to be defined and executed to provide unique competitive advantage. It is likely that some organizations will get more value than others from the transition to competencies. Where any given company stands on the source, definition and deployment of competencies can easily be a factor that contributes to organizational success.

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