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ARTICLE REPRINT

No. U9609D

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by Marie Gendron

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# Competencies and What They Mean to You

by Marie Gendron

**I**F YOU'VE BEEN ANYWHERE near the human resource department recently, you may have heard a buzz about “competencies.” What exactly the word means depends on which expert you ask. Famously, Professors Gary Hamel and C. K. Prahalad coined the term “core competencies” to describe the critical things a company did well that distinguish it in its marketplace. But increasingly, the term “competency” is being used to describe an attribute or behavior that individual managers and employees must demonstrate to succeed at their particular company.

The movement toward using competency-based systems for human resource purposes began about five years ago and has swept through American industry. A recent Towers Perrin compensation survey of 750 companies with an average annual revenue of \$1 billion found that while just 8% currently use competency-based pay systems, 78% said they plan to implement such a system within the next two years. Industry experts say that the movement is largely an outgrowth of the massive wave of corporate downsizing. Since companies have been forced to change to meet new market challenges, it follows that employees have to change their behavior to meet the new demands.

“In the past, companies used to reward effort,” says Lee Raiola, now director of the ethics program at Harvard Pilgrim Health Care and formerly the head of human resource development at the organization. “But now, for better or for worse, everyone’s looking for results. This whole idea of competencies is that they are

the set of skills, knowledge, and behaviors that derive from what the business needs to be successful at this moment in history.”

While the models and formulas used to determine competencies are often extremely complex, the basic concept is simple. Every company needs to take a hard look at what it does better—or needs to do better—than its competitors and then figure out what employee behaviors the organization will need to achieve that result. For example, studies by McBer & Co. and

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other consultants have shown that superior human resource professionals always possess a variety of specific skills or competencies within three separate clusters: goal and action abilities (such as flexibility, planning, and attention to detail); interpersonal and people management abilities (empathy, persuasiveness, self-confidence); and analytic reasoning or cognitive abilities (systems thinking, social objectivity, pattern recognition).

All the experts agree that in determining the set of competencies that a company needs, the key is to include in the inquiry as many people from as

many levels of the organization as possible. Most consultants use focus groups and interviews to help assess the company’s needs and competency gaps. While their efforts may provoke skepticism—what fresh hell from HR this time?—“Managers should keep an open mind,” says Lorayne Dollet, vice president of the Hay Group and northeast regional director for its Hay/McBer division. “One of the things competencies will do is help you understand what the executives at your company are talking about” by way of corporate goals.

Obviously, too, when a competency-based system is extended to cover managers, it can help them analyze their own capabilities on the job. Where they find weaknesses, they can seek training or coaching. By building on existing strengths and tackling their developmental opportunities, they can make themselves even more valuable to their organizations, while improving their prospects in the job market if they should need to go elsewhere.

“It can be a win-win,” says Raiola. “Companies argue that we give you the training and support to do what we need as a business, and that’s your job security.” For managers who are already top performers, competency programs can showcase their talents and offer a path toward greater job autonomy and, maybe, financial rewards.

Once a company has identified the competencies it needs, it must evaluate the existing workforce and see how its set matches up with the ideal. That done, the challenge is to design and put in place a program that brings out those competencies that are lacking.

Dollet argues that managers are often the key to whether a competency program succeeds or fails because it is usually their responsibility to convey the new goals and standards to front-line workers. The best way to make such a program work, she says, is to ensure the competencies are described

## Competencies . . .

in a direct, straightforward way so that all workers are clear on exactly what the company expects and what steps they need to take. She recommends that in trying to get the point across, managers use plenty of specific examples of past actions by individual workers that would meet the new performance goals. Which may be as simple as saying, "Remember when Suzie went into the stockroom to double-check the availability of that product for the customer? That's what we're looking for."

A competency-based system can be designed to extend to all elements of a company's business and workforce, or can be targeted at a few departments or market goals. For example, Harvard Pilgrim Health Care concluded that the two areas where competencies would make the biggest difference in its competitiveness were encouraging overall employee career development and improving the service given by medical assistants.

On the career-development front, the organization had long had a policy of partial tuition reimbursement, but had never tied that benefit to an employee's career goals. The new tuition reimbursement program offers employees unlimited reimbursement dollars for up to four college-level courses a year, as long as the courses are geared toward helping the worker gain the skills to advance to a new job within the company.

The organization's new approach to motivate medical assistants was a "pay for skills" program. Traditionally it had been difficult for medical assistants to make much career progress or to increase their salaries, which understandably sometimes led to a lack of motivation to provide stellar service to the physicians, clinicians, and supervisors who depend on the assistants. With this program, Harvard Pilgrim identified the skills and behaviors most valued by the people the medical assistants served, and devised a set of training programs to be held at the

health centers. Medical assistants get a raise for completing each course.

It's a challenge to design a training program that moves the existing workforce closer to what the company needs, but it's critical. "If I set goals for somebody and don't give them the tools to accomplish those goals, I might as well not set the goals in the first place," says Dave Ulrich, professor of business at the University of Michigan and author of *Organizational Capability and The Boundaryless Organization*. Ulrich and most other experts agree that all competencies can be taught, although some are easier to teach than others.

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Where there is vast disagreement is over the question of whether competency development must be directly tied to an employee's compensation to be successful. "There's a big fight right now going on in the field," says Richard Boyatzis, professor of organizational behavior at the Weatherhead School of Management at Case Western Reserve University and author of *The Competent Manager: A Model for Effective Performance*. "Some people think you have to tie it to financial incentives. But most companies have not done well" at this, he observes. "If you tie competencies and pay together, it becomes a justification exercise rather than a developmental exercise."

Boyatzis maintains that few employees will be completely honest during an evaluation of their own competencies or those of a co-worker if they know a raise hangs in the balance. He does allow that the one area where financial incentives do work is in

quickly exterminating an unwanted behavior. For example, docking workers \$50 each time they swear in the workplace usually ends such behavior within days or weeks. But the results are more murky, Boyatzis says, when it comes to encouraging positive new behaviors.

For all the controversy, more companies are moving toward competency-based pay systems in at least part of their organizations, as the Towers Perrin survey indicates. "The world of pay is changing," says Sandra O'Neal, a principal at the consulting firm and author of *Competencies and Pay in the Evolving World of Work*. "It doesn't make sense to pay you merely based on whom you report to or who reports to you."

O'Neal observes that competency-based pay is gaining ground most quickly in knowledge-based jobs and in companies where different levels of employees work in teams to accomplish specific goals. She thinks that few, if any, companies move to a competency-based pay system as a justification for weeding out underperformers. Instead the goal is to improve the performance of the workforce as a whole.

The experts concede that the first reaction of many managers to competency-based pay is fear. Won't people get upset if they're not marching in the lockstep of pay grades or hourly wages determined by seniority?

What managers must realize is that such a system can offer tremendous benefits to both the company and to the individual. "This is not about academic degrees," O'Neal emphasizes. "It's about demonstrated knowledge. Any manager's reaction to a pay change is anxiety. But a manager is integral to making this work because who better knows people's skills than the manager. And this system gives managers a legitimate way to pay people who contribute beyond the bounds of the job."

■ Reprint # U9609D