

Competency based HRM: A Strategic Tool for Competitive Advantage

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ABSTRACT

Human capital is the most important resource for any organisation in the globalised and skill based economies around the world. Organizations around the world depend on human capital to achieve their strategic objectives. Nevertheless, how they leverage the talents of their resource is the hidden mantra. It is imperative for any organisation to align the employee behaviors to the strategic objectives for sustained success. With umpteen numbers of organizing factors emerging day by day, competency based HR management is being increasingly recognized as an effective way of talent management over the previously adopted Job-description related approach. It involves a transition from the traditional way of managing human resources based on what people have (e.g. qualifications) to what people can do (performance). A growing number of organizations see competence as the key to enduring performance and to making HR most effective. Many models have been developed by eminent scholars on how to implement the competency based human resources management framework. However, unless the competency framework is well planned and defined, organizations will not have the proper foundation for developing and implementing a system of human resource programs and initiatives for renewal and sustained success. On the flip side there are criticisms of competency-based approaches to management and these tend to argue that managerial tasks are very special in nature, making it impossible to capture and define the required competences or competencies. Other writers argue that management skills and competences are too complex and varied to define (Canning, 1990) and it is an exercise in futility to try and capture them in a mechanistic, reductionist way (Collin, 1989). Burgoyne (1988) suggests that the competence-based approach places too much emphasis on the individual and neglects the importance of organisational development in making management development effective. It has also been argued that generic lists of managerial competences cannot be applied across the diversity of organisations (Canning, 1990). In lieu of the wide array of opinions about the competency based people management system, the present paper attempt to crystallize the different notions, analysis of various competency frameworks' / models available for leveraging the talent pool in organizations, also throw light on future innovations in it as well as challenges for this new age HR mantra.

Key Words : HRM, Strategic tool, Human capital, Hidden mantra

INTRODUCTION

Human resource (HR) management is undergoing a major transformation in today's organizations. Once upon a time—and not all that long ago—HR management practitioners were expected to be the traffic cops of their organizations. It was their responsibility to note legal noncompliance or departures from organizational policies and then punish transgressors, just as traffic cops watch

for and issue fines' to drivers who exceed speed limits. As a direct consequence of this compliance orientation, some HR management practitioners became risk averse—and some remain so to this day. They oppose innovative actions taken to leverage the talents of organizational members for the simple reason that treading on new ground means taking new risks, which could possibly cause deviations from external legal requirements or internal policy standards.

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The new role of HR management demands an outlook that differs considerably from the compliance mind-set. HR management practitioners are expected to be experts on leveraging human talent within their organizations for the purpose of achieving competitive advantage. They must demonstrate new sensitivity to the full range of human capabilities (including emotional intelligence), align HR efforts with strategic objectives, and integrate various HR activities so that people are consistently encouraged to achieve desired results.

As the global economy spurs increasingly fierce competition, organizational leaders will be thinking hard about what they could do to give themselves and their organizations a competitive advantage. Since people may be the most important resource, it just makes sense to think how the management of people might be improved. That leads to competency-based HR, which reinvents traditional HR (based in job analysis and job descriptions) to focus on leveraging the known productivity differences between average and best-in-class (because most productive) performers.

Competency-based HR management if used properly has the potential to meet many business needs. It can, for example, be of value to organizations that seek to achieve the following goals:

- Enhance competitive advantage
- Develop better quality in products and services
- Increase productivity
- Position the organization for future growth
- Facilitate culture change and transformation
- Assist with large-scale organizational change
- Foster positive outcomes with customers or suppliers
- Increase financial performance
- Establish systematic linkages and integration among HR management practices
- Align HR management practices with the mission, vision, values, or the business strategies or objectives of the organization

The present paper has attempted to throw light on the importance of competency based HRM, its frameworks/models for modern day organizations which needs to widen their spectrum and replace the traditional HR bases likes of Job Analysis.

Objective and Methodology for Study:

The present study is exploratory as well as descriptive, as the researcher intends to draw attention

of HR community, researchers and professionals, towards the trend shift from traditional job analysis HR to competency HR. The motive is to highlight the reasons for this shift, its significance for modern day organisations, challenges behind its implementation, acceptability and its pursuance. In addition to the same, the authors also discussed the application areas of competency based HR and Competency Models being followed by the modern day HR practitioners.

Theoretical foundations:

Competency, competencies, competency models, and competency-based training are Humpty Dumpty words meaning only what the definer wants them to mean.—The problem comes not from malice, stupidity or marketing avarice, but instead from some basic procedural and philosophical differences among those racing to define and develop the concept and to set the model for the way the rest of us will use competencies in our day-to-day training efforts. There are two schools of thought concerning differences in the interpretation of competency. One school of thought maintains that competency implies knowledge or skill. The second interprets competency as any characteristic that supports performance. In the latter interpretation, competency can include knowledge or skill as well as any number of other characteristics such as levels of motivation and personality traits. Central to the second school of thought is the philosophy that the focus should be on the people who do the work, not on the work those people do.

Several key developments laid the early groundwork for the competency movement and contributed significantly to the field. The concept of human competence reached the forefront of human resource development with the concurrent work of the psychologists Robert White and David C. McClelland. McClelland (1973, 1976), who is often credited with coining the term competency, defined it as a characteristic that underlies successful performance. Over the years, many writers, including key thinkers and leaders in the field, have defined and refined the word competency and related terms.

McLagan (1989) and Klemp (1980) defined a job competency as “an underlying characteristic of a person which results in effective and/or superior performance in a job” (in Boyatzis, 1982). He also noted that “competencies are characteristics that are causally related to effective or superior performance in a job”. Expanding

on that definition, Spencer and Spencer (1993) described a competency as “an underlying characteristic of an individual that is causally related to criterion-referenced effective and/or superior performance in a job or situation”. They explained that competency characteristics include these five types: motives, traits, self-concept, knowledge, and skill. Dubois (1993) adapted Boyatzis’s 1982 interpretation of the term and defined a competency as an underlying characteristic that “leads to successful performance in a life role”. This definition varies according to the context of its application and the differences in procedure and philosophy. Flannery *et al.* (1996) noted that competencies “add value and help predict success”. Dubois and Rothwell (2000) described competencies as tools used by workers in a variety of ways to complete units of work, or job tasks.

Competency-based human resource practices provide two types of integration which are vertical and horizontal integration. Vertical integration ties individual employees and their behaviour to the strategic objectives of the organization while the horizontal integration ties each human resource practice closely together in one frame of reference and language (Brans and Hondeghem, 2005). Thus, competency-based human resource practices are more like a control system in ensuring there are coherence and standardization in the system and thus, the end results expected and targeted by the organizations could be fully achieved. Moreover, in competency-based human resource practices, competency is tied to every human resource practice either at the input or output level. At the input level, competencies which are vital for the organizations in achieving their goals are identified. This list of competencies is known as competency frameworks (Hondeghem and Parys, 2002; Mikulowski, 2002). The competencies could be of five different types which are psychomotor, cognitive, affective, personality and social (Moqvist, 2002) which could be classified further into two which are hard and soft or generic and specific (Brans and Hondeghem, 2005). These competencies will be the base for every human resource practices such as in selecting and recruiting, training, career developing, appraising performance and rewarding the employees. By doing this, organizations can ensure that competency at the output level or in other words, performance is more measurable and easier to be obtained.

Forces behind competency based HR:

Many business publications today contain references

to trends that are predicted to affect businesses or organizations in the future. Whatever factors affect a business, it is certain that they will ultimately affect its human resources and the HR function. A study conducted by Rothwell (1996), and jointly sponsored by the Society for Human Resource Management (SHRM) and CCH, identified the most important trends that will affect organizations and their HR management over the next 10 years. The study specified six key trends, pinpointed their causes, listed their possible consequences, suggested organizational best practices to address them, and recommended essential leadership competencies that will help organizations anticipate the effects of the trends. These trends were examined further by Rothwell *et al.* (1998), who prioritized them as follows:

- Technological change
- Increased globalization
- Continued cost containment
- Accelerated speed in market change
- Growing importance of knowledge capital
- Increased rate and magnitude of change

The implications of the six trends just described can be summarized in just a few words. HR practitioners must assume responsibility for leading the way in their organizations to add value. The use of competency-based HR management techniques provides the single most useful approach to position the HR function in a leadership position so they can provide this value.

The authors came across following reasons why competence management should be used in contemporary organisations.

- Effectively match individual competencies to position, project team, and job requirements
- Prioritize competencies by job, project, or position, and track individuals’ abilities to fulfill requirements
- Integrate training and administration applications to focus training efforts
- Run gap and match analyses between individuals, jobs, teams, and positions
- Increase skill sets to meet your organization’s scope and growth
- Increase their ability to attract, develop, retain and utilize co-workers
- Lengthen the time that staff stay with a company by allowing staff members to discover individual career paths within the company
- Increase capacity by achieving a more holistic

view of the accumulated competence of the entire organization

- Achieve access to appropriate competence at the right time and place
- Establish an overview of the accumulated resources of the organization and the demand for those resources
- Find candidates with the right profile, from anywhere in the organization, to fill an unexpected vacancy
- Identify key positions for which you have no candidates
- Reconcile the aspirations of your key people with the opportunities available
- Check how closely your development activities are aligned with the needs of your business
- Ensure you are building the appropriate talent pool to support your future needs
- Make hiring #1 in terms of focus, priorities, and action
- Align corporate objectives and strategies to each person in the company
- Integrate your performance-management and review system directly with the hiring process

The above list is by no means exhaustive but it does lend itself to the immense importance of competence management. The aspects of competence building and its importance have not been touched here, but as Hamel and Prahalad said:

“There are substantial rewards in getting to the future first. Getting to the future first may allow a company to establish a virtual monopoly in a particular category, to set standards, establish the rules by which other companies have to compete, to bulked an infrastructure that cannot be easily duplicated.”

And one of the factors that help you to get to the future first is its success in building core competencies central to the provision of customer value in the new opportunity arena

Traditional HR vs Competency based HR:

Traditional Approach:

This approach to human resources management is based on job analysis and Management by Objective (MBO). These approach results in HR functional areas to be planned in accordance to the job requirements in terms of skills and knowledge.

Competency Based Approach:

A person's cognitive and physical abilities can seldom explain the job performance; instead the job performance depends on behavioral patterns like attitude, motivation, interpersonal skills etc. In-fact people are on the basis of their qualifications but are fired due to non-performance. This approach focuses on the skills, knowledge required to do a particular job in addition to the attitude and ability to do the job. Competency-based human resource systems provide both the structure and discipline to help bring out the best effort in people, and ultimately the best performance for the organization. It involves a transition from traditional way of managing HR based on what people have (qualifications) to what people can do (performance). Industry psychologists have identified the 'big five' personality dimensions which affect job performance: extraversion, emotional stability/neuroticism, agreeableness, conscientiousness, and openness to experience.

Literature review:

Competency-based human resource practices have long way been practiced in other countries like US (Hood and Lodge, 2004), UK (Horton, 2000a; 2000b; Farnham and Horton, 2002), Netherland (van der Meer and Toonen, 2005; van Vulpen and Moesker, 2002; Hondeghem and Vandermeulen, 2000), Germany (Löffler *et al.*, 2002), France (Jeannot and Lichtenberger, 2002), Italy (Cerase, 2002), Belgium (Hondeghem and Parys, 2002; Brans and Hondeghem, 2005), Sweden (Moqvist, 2002), Finland (Virtanen, 2002) and Poland (Mikulowski, 2002) since 1980s. However, the implementation was decentralized to the departments and thus, was not holistic. The reason why they started to adopt the practices was due to either dissatisfaction involving the staff or the customers due to inconsistencies in the staff management (Lodge and Hood, 2005). Competency-based human resource practices used competency framework (competencies that distinguish high performer from average performers in all areas of organizational activity) as the foundation for recruitment, selection, training and development, rewards and other aspects of employee management (Horton, 2000).

Pritchard (1997) saw competencies as a way to integrate HR strategy with business strategy, thus adding performance value to the organization. He explained that the use of competencies empowers individuals and teams and frees management from complex HR processes.

Cooper *et al.* (1998) noted some of the positive outcomes produced by valid and reliable competency-based HR management models. These include linking individual competencies directly to the organization's strategies and goals; developing profiles for positions or roles and matching individuals to the task sets and responsibilities; affording the opportunity to continuously monitor and refine competency profiles; facilitating the selection and evaluation of employees as well as the training and development; assisting with the hiring of individuals with unique competencies that are costly and not easily developed; assisting organizations in the ranking of competencies for both compensation and performance management. Lucia and Lepsinger (1999) mentioned these additional business needs that can be addressed through the use of competency models: providing clarification for both job and work expectations, assisting in creating effective hiring practices, enhancing productivity, creating effective processes for 360-degree feedback, providing a tool that can assist in meeting today's needs as well as assist with changing needs, and aligning behaviors with strategies of the organization and its values. According to Pickett (1998), some of the most frequently given reasons for the introduction of competencies are to improve organization performance, increase the ability to be competitive, support culture change, enhance training and development effectiveness, improve processes associated with recruitment and selection, reduce turnover, clarify managerial roles and specialist roles, increase emphasis on business objectives, aid in career and succession planning, analyze skills and be able to identify the current and projected deficiencies in skills, improve workforce flexibility, support the integration of overall HR strategies, and provide a basis for compensation and reward programs. Cook and Bernthal (1998) asked respondents in the Job/Role Competency Practices study of the HR Benchmark Group, Development Dimensions International, to rate the performance of their organization compared to 1997 as it related to the following success indicators: "retention of quality employees, customer satisfaction, quality of products and services, employee satisfaction, productivity, and financial performance". The results suggest that improved organizational performance and improvements to the bottom line can occur when competencies support even a few HR systems. Nine out of ten organizations indicated overall improvement when job/role competencies support six HR systems, and with support

from competencies in four HR systems or more, the percentage of organizations that experience improvement almost doubles. The American Compensation Association (ACA), in cooperation with Hay Group, Hewitt Associates LLC, Towers Perrin, and William M. Mercer, Inc., conducted a study about competency-based HR applications, distributing 19,016 fax-back questionnaires to 19,016 North American companies. A total of 426 companies responded, and the identification of 1,257 competency-based applications was made. Five different questions were developed and distributed to the respondents and other organizations that were known by the researchers to be in the development stages, in an effort to gather information about the applications. At this stage of the study, 217 companies responded, indicating 247 competency-based applications either in place or in the process of development. The study results suggest that some of the reasons that companies use competency-based human resource management include "raising the bar" and enhancing employee performance, providing a focus on the culture and values of an organization, and facilitating the integration of HR applications by providing a framework. Other findings from the study include that information about competencies is obtained from a number of sources and business strategy plays an important role in the development; competencies emphasize the ways in which performance results are achieved; applications for competencies are "evolutionary, not revolutionary"; compensation is the less frequently used and newest application; and the newness of some of the applications mean that it's too soon to determine their effectiveness. In *Competencies and the Competitive Edge* (1998), Watson Wyatt researchers reported the results of a 1997 study in which they examined trends and explored people strategies. The study was based on survey responses from 1,020 North American organizations, in-depth case studies conducted with 17 companies, and on-site evaluations and interviews. The Study concluded that competencies can define and convey an organization's strategy and its meaning and assist employees in understanding the strategy and achieving its goals, the report suggests the roles of competencies in organizations, including articulating organizational values; providing a common language in which to describe value creation; creating a new paradigm for the programs in HR (organizational levers); emphasizing the development of individuals instead of the organization's structure;

connecting pay, promotions, and growth to what the organization deems to be of value; and guiding employees and managers concerning expectations as well as how value is defined during change and restructuring. The results indicated that competency-based practices contribute positively to the bottom line, and that contributions to the organization are related to the roles of individuals rather than to their jobs. In addition, results suggest that endeavors designed to further employee commitment have the potential to generate positive returns, and that training and development are viewed as drivers of future success. Schoonover *et al.* (2000) conducted an electronic survey on competency-based HR applications in which 300 respondents participated were queried on their reasons for applying competencies. The results of these findings indicated that enhanced performance expectations and integrating the HR processes were the major causes with 33% of respondents specifying the first reason and 20% specifying the second. Other goals for competency-based practices were to align behavior with core values (11%); provide a career framework and create bands of competence or levels of competence (both 8%); focus on the way in which work gets done and support exemplary performance (both 7%); and communicate generic leadership skills and develop specific roles (both 2%). Johnson Brackey, 1998 in an interview with several practitioners of the field where the subject of competency models was discussed and concluded that After the skills of the best performers are known, the competency model provides value and usefulness both for training and motivation and as the basis for acquiring the competencies the organization needed to change. Included in the interview were the following comments about competency models. According to Sandra O'Neil Gaffin, there is a growing interest in competency models because of an increased focus on the individual since the workforce is becoming more knowledge based and businesses are more technology based. According to Edward J. Cripe the process involved with creating a model often places a strong focus on the company's resources and goals.

Competency models:

A competency model is a written description of the competencies required for fully successful or exemplary performance in a job category, work team, department, division, or organization. Competency identification and modeling can be a beginning point for strategic

development plans linked to organizational and individual needs. As you might expect, organizations express competency models in somewhat different ways. These variations reflect their different constraints, preferences, practices, values, business objectives, and reasons for using competencies. Competency models may also vary by type. Many organizations do not distinguish among competency models that underscore the differences between exemplary and fully successful performers, those that identify minimum requirements for job success, or so-called derailment studies that indicate the likely causes of failure. In general, then, the structure of a competency model, the way in which it is communicated to workers, and the manner of its use reflect the values of the organization's decision makers and leaders.

Research on the characteristics included in competency models is of much interest today. In one study with 300 respondents conducted by Arthur Andersen, Schoonover, and SHRM, the following categories were reported as included in competency models: technical skills, knowledge areas, performance behaviors, personal attributes, metrics/results, and key experiences (Schoonover *et al.*, 2000, p. 7).

There are various models which are prepared as a result of years of research by the experts, consultants, academicians and brought about a change in the dynamics of HR today. Some of them are discussed below.

Hay Mcber Model:

It is championed by behavioral scientists. Proponents of this model believe that behaviors are the driving force behind an individual's ability to perform and therefore, behavioral assessment becomes important indicators in employee selection, development and rewards.

Organizational Approaches:

Elliot Jacques provides a Normative model of effective hierarchical organizations with an emphasis on competencies. The elements include the present and potential competencies of individuals along the dimensions of cognitive capacity, valuing the work, and non-disruptive personality.

Peter Senge's approach to a whole organization competency model is captured in his notion of the "learning organization." Its essential characteristics include nurturing the growth of new capabilities, transformational learning for survival, leadership by communities of servant leaders, learning through

performance and practice, and the inseparability of process and content.

Team Approaches:

Campion's model, which applies to professional work, suggests that teams composed of individuals with complementary competencies are more effective and have higher levels of job satisfaction than teams whose members have the same competency sets. This is especially true for work that is complex and varied in scope. For routine work, the benefit of heterogeneous team member competencies is less noticeable.

Individualistic Models:

Traditional Person-Job Match Model:

This model assumes that employees have jobs with specific and identifiable tasks. Job-based staffing is measurement and assessment driven. This model works best with organizations defined by stable environments.

Strategy Based Model:

This model assumes that employees have roles defined by the organization's strategic goals. Role-based staffing is strategy driven. Work is flexibly defined and often carried out in a flattened, decentralized or matrix structure. This model functions most effectively in organizations in competitive, complex or highly stressed environments.

The Strategy Development Model:

This model assumes that employees with broad, potentially strategic "attributes" will create their own roles which interact to produce the organization's strategy. Work is constantly evolving within a network of organizational relationships. This model is described in terms of organizations in chaotic, unpredictable, or very rapidly changing environments.

In addition to the Competency models discussed above there are others frameworks also :

1. Organizational Competency based Competency Model
2. Commitment and Competence based Competency Model
3. 5-Level Competency Model
4. Job based Competency Model
5. Generic and specific Competency Model
6. Managerial, Behavioral and Functional Competency based Model

7. Organizational Goal linked Competency Model
8. Technical and Behavioral Competency Model (for non-managerial staff)

Applications of Competency based HRM:

The determining factor in deciding to move to a competency-based approach to HR is a sense of priorities. To clarify: the old saying is that you cannot eat an elephant all at once, but you can eat an elephant one bite at a time. The same principle holds in moving from a traditional to a competency-based approach to HR. It is not easy to transition from a traditional to competency-based approach. It must be taken one bite at a time. And that may require easing into a competency-based implementation, one HR function at a time. The following are the various application areas where competency can well be integrated in the HR Function and whole of the organisation can greatly be benefitted.

Competency-based Recruitment and Selection:

This method focuses on performance rather than the job content. The technical competencies are measured by qualifications while behavioral competencies by several process of interviewing or through assessment center.

Competency-based Interviewing:

As opposed to the traditional approach in this method the interview is not focused on technicalities of the job but the candidate is judged on the basis of behavioral competencies. In this approach the candidate's can demonstrate his behavior's/attitude in the workplace by answering questions related to how he dealt with situations in the past. This is better than the traditional approach as:

- Competencies are more related to the job than the previous work-experience. Also, a better performance in the previous job does not ensure a better performance
- Competencies are more linked to job performance rather than situational behaviors which the candidate can even fake
- Competencies are not restricted to experience.

Competency-based Performance Management:

In this approach the feedback on the performance of employees are given not only in terms of how much goal is achieved but also what behaviors should be adopted to achieve the set targets. One of the reasons

why MBO failed is because of the sole consideration on the failure or achievement of the target without telling them why they failed or succeeded. Based on the performance the employees are given training and development if they lack in the competencies requisite for the job or if the performance of the employee is good then he is given subsequent training to achieve the competencies for the next higher post.

Competency-based Training and Development:

In this the candidate is given training on the competencies that he is lacking which gives him confidence and hence improve job performance. However, the limitation to this approach in training is that unless proper methods are given on how to proceed with the training the trainers tend to go back to the old method of teaching. Also, it is effective only when less number of competencies is linked with the job performance.

Career Planning and Succession Planning:

Competency based approach helps an employee is able to track his career growth in an organization. The complete dictionary of the job will enumerate all the desired competencies for a job and the required competency level (RCL). The employee can thus understand his status in terms of competency and performance based on the gaps between RCL and the current competency level (CCL). Based on the gap assessment the management decides the training and development programs for the individual.

Future innovations and challenges in competency based HR:

It is evident from the wider acceptability by Global HR Leader that competency-based HR management will become the standard approach for all or most organizations. Job descriptions, the basis of traditional work-based HR management, are no longer an effective means of making good employment decisions. There are several reasons for this. First, job descriptions tend to focus on activities or responsibilities instead of on measurable outcomes or results. Second, they do not take into account the abstract qualifications that affect customer satisfaction and are integrally related to exemplary performance. And third, in the volatile business world of today, job descriptions simply cannot be written quickly enough to keep up with work changes.

Many decision makers are looking for an alternative

approach as they simultaneously attempt to retrofit existing methods and practices. Competency modeling has much to recommend it. Competency models are more flexible and more enduring than job descriptions. They are based on measurable work results and are specific to the organization's culture and success factors. In the future, however, it is expected that competency-based HR management will be used to align HR practices with the organization's strategic objectives and employee development efforts and to integrate all components of the HR function across an organization.

Several research studies on competency-based HR management have addressed the topic of challenges and barriers and provided suggestions for meeting and overcoming them. Here is a brief look at some of the results.

- From a survey on competency systems, both their design and use, conducted with 134 people, Green (1999) indicated that the findings suggest five broad categories of challenges: gaining buy-in, involvement, and participation; developing reliable and valid forms of measurement; addressing the challenge of negative feedback through introduction of acceptable and representative performance measurement; ensuring job relevance; and seeking methods of cost effectiveness.

- More than 130 HR executives were interviewed for a study during late 1999 and early 2000. The results indicated the following barriers to using competencies: no buy-in or visible commitment from top management; organizational unreadiness; lack of time and resources needed to develop and validate credible, useful models that could withstand legal challenge; insufficient time and resources for creating reliable, valid evaluations with which to guide follow-up steps (Rahbar-Daniels, Erickson, and Dalik, 2001).

- The Society for Human Resource Management sponsored a study in late 1999 and early 2000 that involved 300 organizations. The results suggested that barriers to success include lack of expertise, insufficient staff and financial resources, limited support, and conflicting priorities (Schoonover *et al.*, 2000). Identifying realistic outcomes, determining resources needs and time requirements, and consistently using best practices were noted as contributors to positive outcomes (Schoonover *et al.*, 2000).

- In 1998, researchers Cook and Bernthal Development Dimensions International conducted a study of 292 members of the HR Benchmark Group. The

survey included a number of different questions about competencies and their use in organizations. One of the topics was barriers to the effective use of competencies. The findings suggested difficulties in the following areas: making resources available for job analyses, developing strategies for using competencies, linking competencies to organizational strategy, securing management support, identifying competencies, adapting to changing jobs and roles, assigning responsibility for competency identification, and providing clear, accurate definitions (Cook and Bernthal, 1998).

Future Innovations:

Growing awareness of the value of competency-based HR management will lead to innovations in competency technology. For example, HR practitioners will be able to apply increasingly sophisticated electronic technologies to competency identification, modeling, and assessment. Web-based applications for competency identification and validation as well as for development and career management, already possible, will become the norm. As more organizations conduct competency identification and modeling work, it is expected that the development and verification of innovative methods for competency identification will advance both the state of the practice and the state of the art. Increased use of competency methods will build the inventory of identified competencies, thus improving the data available for use in menu-based competency modeling activities. Organizations will then be able to define exemplary performance more precisely and with greater validity and reliability. There will be increasing focus on return on investment, return on assets, and other valuation measures that demonstrate the superiority of a competency-based approach.

Future Challenges:

Wrongheaded application of competency identification, modeling, and assessment methods is foremost among the challenges in the widespread use of a competency-based approach. HR practitioners must take steps to distinguish the good from the bad methods of identifying competencies and constructing competency models. Too many practitioners are in a rush to develop the models so that they can move on to the next steps. Given these inadequate models, decision makers are never able to discover what sets exemplary performers apart from fully successful ones, and much of the models'

value is lost.

A second challenge is the lack of HR staff capable of completing high-quality competency technology applications. In the absence of resident HR specialists who can perform this work, organizations must enlist the support of experienced contractors or consultants.

Third, it will continue to be a challenge to gain the long-term commitment of senior managers. Senior managers must be willing to learn, become involved, and commit to objectives that might require more time to realize than they prefer. An organization's decision makers sometimes view initiatives as all-or-nothing propositions.

Fourth, and finally, organizations that do not initiate and maintain continuous communication with their employees on the use of competency-based practices will find implementation of the new approach a difficult undertaking. All persons affected by the technology must be informed about its benefits, requirements, and other factors relative to the applications to be used.

Conclusion:

The importance of competency based HRM is increasingly being accepted as an explanation of superior performance. This is based on the fact that the performance of an employee is based on not only is skills or knowledge but is also a function of internal and external environment. From the Indian context, companies are increasingly becoming aware of the importance and they are taking steps with respect to competency based HR practices. L&T, Smithkline Beecham Consumer Healthcare, PepsiCo, Hughes Escort, P&G, Modi Xerox, ITC, Mahindra and Mahindra are some of the companies using competency profiling in either of their HR application. Research conducted in 1999-2000 by three leading Performance Management companies worldwide, indicate that competency-based practices are an integral tool for "talent management," shareholder return, and value creation. The three studies (independently conducted) concluded that companies using competency-based HR programs returned between 20 - 30 percent more to shareholders than companies using the traditional method (job descriptions, salary grades, unaligned HR systems).

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