# Strategic Competency Management –
# Its Prerequisites and Impact

*Bettina Dilcher*

In today's world, an effective personnel management needs to offer more than standardized administrative services covering HR Support and Corporate Co-Determination. Aligning the personnel management with the company's strategic goals has become more important than ever. This means that all the key players involved need to know exactly

- what the existing strategic guidelines are,
- whether processes and job profiles fit them and are compatible with each other,
- which employees, and which of their potentials and qualifications, are needed and/or already part of the company,
- how these employees can be supported and promoted,
- what an attractive incentive and compensation system should look like to increase the long-term employee retention rate,
- how an effective and long-term personnel controlling can be established,
- which standards should apply to effective personnel controlling.

Personnel management can only become an important partner for the executive board – and thus a crucial factor for a successful company development – when this information and the corresponding structures have been established. But right now, this is not yet acknowledged everywhere, especially medium-sized companies being a notable exception. In their case, quite frequently the role of personnel management is still mainly reduced to a mere administrative function. But time is of the essence here, not only because of the increasingly noticeable effects that demographic developments have on the job market. A restructuring of the field of personnel management is urgently

required, especially in the face of the rapidly progressing digitalization of the world of employment (cf. for example Industry 4.0) and the resulting consequences for the development of jobs, workflows and structures.

Only someone knowing in good time which employees are needed where and which of their qualifications are relevant, can plan strategically and react accordingly. For example, a recruitment process that can only react to ad hoc requests from the respective members of the executive board, without keeping track of the company's overall strategic orientation, has an extremely negative effect on corporate success, especially during times of an increased pressure for change. With a strategic competence management, such a negative development can usually be mostly prevented.

Thus, here we would like to point out which requirements need to be fulfilled to establish a competency management which is working out in the long run.

This includes

- setting up the structural and quality-related conditions,
- defining the term "competency management" as a prerequisite for the shared work of all key players involved; the relationship between a person's characteristics, talents and competencies/skills,
- establishing a process of strategy development that is binding for all,
- developing a career model that is suitable for the company,
- developing a process for assessing work performances and employees' personal potential,
- checking whether the extant compensation system is compatible with the career model and the system of performance assessment, as well as
- implementing a suitable IT solution, so that the competency management can be successfully introduced and have a lasting effect.

# The Structural and Cultural Requirements

Before even considering the establishment of an effective competency management, the current personnel management must be thoroughly scrutinized. This includes changing perspectives. In many companies, certain areas are still being operated relatively independent from each other

- Personnel support
- Compensation/Working hours
- Personnel controlling
- Personnel planning and
- Personnel development

Instead, they need to be viewed as a unit and as interconnected with each other, since dividing them into separate parts leads to a loss of information and data each time and makes the alignment of strategic company goals much harder.
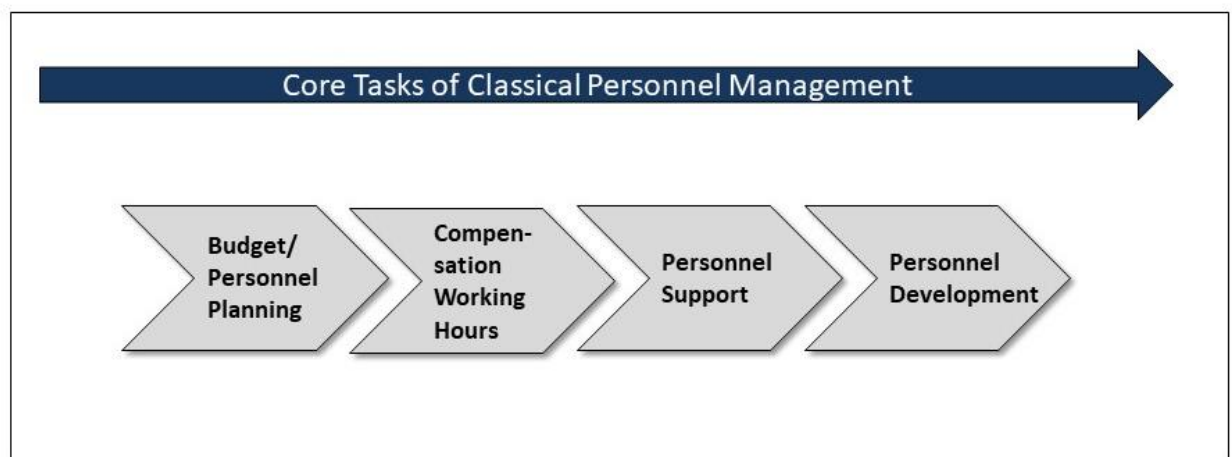


**Figure 1**

It can only be ensured that all competencies are available in the right place, at the right time and with sufficient quality when all core functions of personnel management are interlinked.

The different roles existing within personnel management need to be aligned with each other accordingly.

**The Roles within a Strategic Competency Management**

| Competency Manager | Change Agent | Strategic Architect | Planner and Activist | Business Partner | Operative Administrator |

**Figure 2**

A truly effective competency management cannot be established without connecting the personnel management with the company's strategic development. All attempts to try despite this fact merely lead to uncoordinated individual actions and, in the worst case, to an expendable work output.

Additionally, the company's top executives should always drive the implementation and execution of a systematic and strategically integrated competency management. Further, it should always be organized and executed as a project in organizational and personnel development.

**Figure 3**

To make sure that a project aiming to implement a strategic competency management is successful, it is crucial to know the company's current performance culture.

Thus, we recommend carrying out an analysis of the performance culture accordingly and before starting a project. The analysis should build on the conceptions of fairness that are prevalent in the company (cf. Liebig/Lengfeld 2002).

In this approach, we are assuming that employees' opportunities for autonomous work and the commitment they show are interdependent and have a direct influence on the conceptions of fairness prevalent in the company. We are asking whether it is possible to work autonomously and how this can be done, both questions relating to the orientation towards hierarchies and towards groups.

Such questions can be answered during workshops with a select number of executives and/or through an intranet-based survey which can be answered online by your employees.

Based on a questionnaire, using a grid analysis we assess towards which "fairness type" the survey participants gravitate (Image 4). From the survey's results, we gain insights into a company's performance culture. Below, the individual fairness types are specified further

**Type A Individualism**: The performance orientation of this type is aimed at directly and autonomously negotiating the services and the usual market prices. They are getting feedback about the quality of the service directly from the customer. Whenever this negotiation mode is interrupted, it is possible this type won't perform to their full capacity.

**Type B Fatalism:** For this type, strict procedural rules are in place for the assessment of their individual performance which is based on strict hierarchical structures. In accordance with this, to them their immediate superior is entitled to carry out the assessment, in which they cannot directly interfere. If they receive no appreciation from their superior, they tend to identify less with their work tasks.

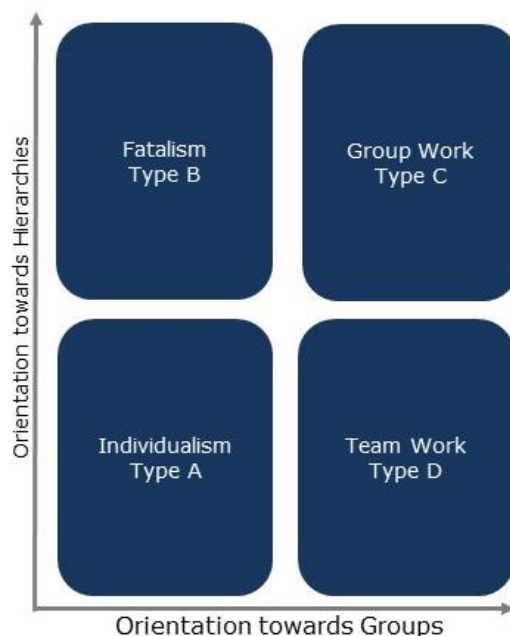**Type C Group Work:** There are strict procedural rules which are aligned with the conditions of corporate co-determination and to which individual employees must adhere. If this logic is compromised, e.g. when rules are suspended at random, this type's identification with the company decreases.



**Figure 4**

**Type D Team Work:** This type is very team-oriented and for them, the team is to a great extent autonomously responsible for achieving set goals. The team members' performance motivation is high

as long as they feel each person's fair share of success is guaranteed.

## Defining the term "Competency Management"

To make sure that the introductory process is working smoothly, it is important that all key players involved agree on a shared terminology concerning competency management right from the start of the project. This is not as straightforward as it may first seem, because there is a considerable degree of conceptual confusion around competency management in the relevant literature. For example, often "talent management" is used instead of "competency management". In itself, this is justified, since there needs to be talent in the first place for particular competencies to be developed. But – as can be seen when looking at the chart and the corresponding explanatory notes below – using the term "competency" makes it clearer what the possible courses of action are, since they are connected to the specific tasks and challenges of each job. The term "competency" is thus directly connected to taking action, while the term "talent" refers to a person's inherent potential but not to their actual capability for fulfilling a required task.



**Figure 5**

- Characteristics are relatively stable, cannot be trained and only change because of critical life events, if at all.
- Talents can also generally not be changed but can be improved and expanded through targeted support.
- Competencies and abilities can be trained – but this is always connected to a person's existing characteristics and talents – and they show themselves when put into action (=performance); still, they always relate to specific requirements that need to be fulfilled.

As has been confirmed by numerous empirical studies during the last decades – cf. Heyse/Erpenbeck 2007 and 2010, among others – competencies can be narrowed down to the following three core competencies:

- Competencies relating to the individual personality
- Competencies relating to activities and actions
- Social and communicative competencies

These core competencies form the basis for the eventual fine-tuning needed for company-specific requirements. Thus, it is crucial to always consider the two levels of action which exist in competency management: on the one hand the structural framework (in our case, of a company) and on the other hand the personal qualifications of each employee. The term "abilities" refers to a person's work-specific and methodological knowledge that they need to fulfil their tasks, and which is gained during the course of an apprenticeship or while studying at university.

Thus, defining, identifying and developing personal competencies is always bound to a particular context and it is only when requirements and competencies are connected that a target/actual comparison becomes possible. This comparison is indispensable for an analysis (of required and existing competencies) and needed for an effective competency management.

# The Importance of a Compulsory Standardized Process for Strategy Development

Nowadays, more and more medium-sized companies have come to understand how important a systematic strategy process is. Unfortunately, bringing together the two aspects "strategic targets" and "competency management" is not yet a standard process everywhere. But strategic targets are an important requirement for precisely identifying and implementing competency requirements and needs as well as measures for competency development.
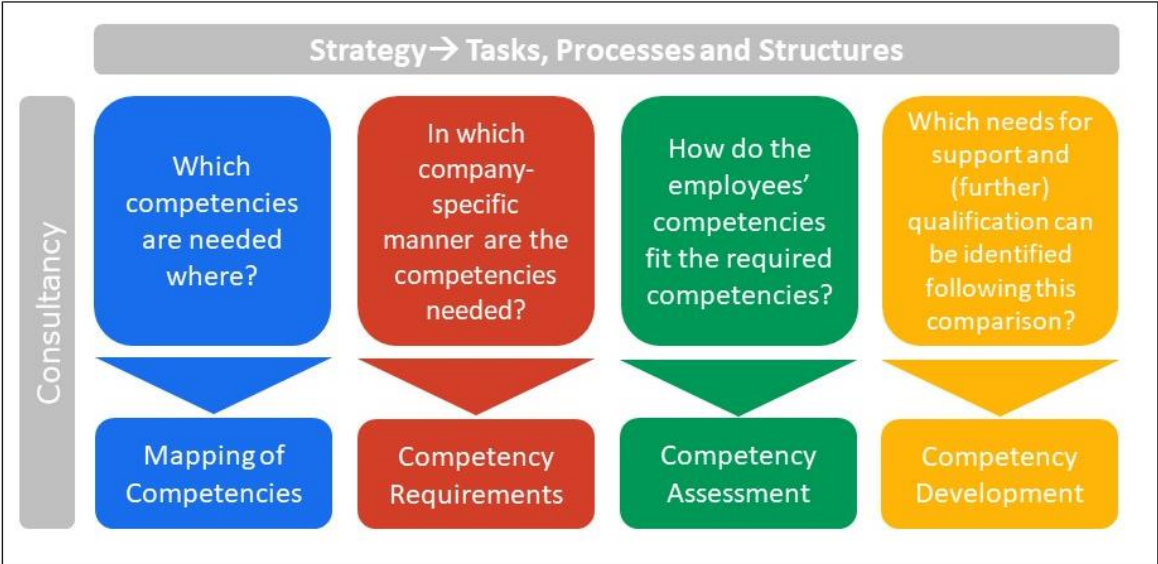


**Figure 6**

Care should be taken that the time frame for such targets is not more than 24 months. Shorter intervals make less sense though, because in this case, neither would the effort warrant the result, nor would the development periods be long enough to build up new competencies.

When it comes to the systematic identification of strategic targets, during the last few years there's been more and more use of the "Balanced Score Card" tool. This process mainly works from the perspective of finances,

processes, innovations and customers (the chosen perspectives depend on the business form and especially in the non-profit sector, more perspectives are added as required). The strategic targets of a company and/or an organization are being defined for each of these perspectives and it is worked out in which way they are interdependent. This process is conducted on each level for the core areas of a company / an organization. While doing so, the corresponding targets and measures (e.g. sales, process changes, adjustments of job profiles, competency needs etc.) are being transferred all the way down to the team and/or employee level.
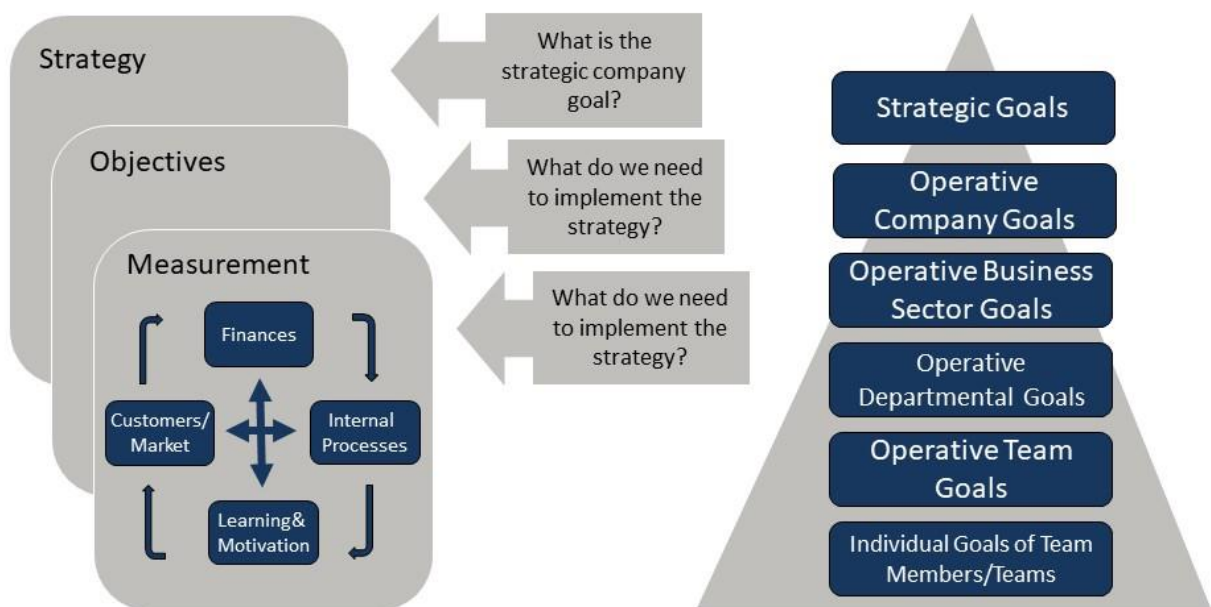


**Figure 7**

# Developing a Specific Career Model for a Company

An effective competency management not only has to always make sure that the people employed at a company are the right ones for their jobs but must also strengthen employee retention and motivation. Both requirements cannot be fulfilled without a transparent career model that is combined with a corresponding compensation system. In order to build,

develop and further competencies, there needs to be a structure which serves as a reference point for employees and executives in terms of their job position's status and their individual opportunities for development and targeted support. Without such a reference point, their motivation can decrease to a large extent and on top of that, a crucial management tool would be missing.

> ➤ All employees should always be able to find out to which career track and to which level of requirements their job profile is assigned.
> ➤ Furthermore, a clearly defined set of rules needs to be worked out, giving each employee information on their career paths and options.

**Figure 8**

An important prerequisite for a career model to work is the definition of job profiles in each department and for each career level.


The following procedure has proven successful:

1. The competencies and abilities that can be derived from the company goals are being operationalized through competency mapping.
2. Afterwards, as part of the competency definition, these are being described for the various job families and become a part of the job profiles (reference positions) they are assigned to.
3. In the next step, the concrete job positions are being assigned to the job profiles and/or reference positions.
4. Then, the comparison between the target requirements (= profile of the concrete job position as compared against the reference position) and the actual profile (= competence profile of an employee) becomes the basis for
5. Measures aiming to further potential for development can be defined and put into action (cf. also Image 5)

## The Processes of Performance Assessment and Potential Appraisal

Usually, a career model alone is not enough to kick-start and to properly document a dynamic development between individual competencies and the changing requirements. Most companies have an annual performance assessment procedure for this. Those kinds of procedures are either focused on the observable work performance or on target agreements, often they use a combination of both methods.

A performance assessment procedure is especially successful – no matter which method is being used – if all its assessment criteria are transparent for all involved, can be derived from the strategic specifications and are communicated clearly.

It is of the utmost importance that the responsible executives' assessment can be competently explained and communicated. This is

by no means a given! Many executives would rather avoid giving direct and open feedback about their employees' work performance.

For example, target agreements do not work if the strategic guidelines have not been worked out and operationalized properly. In our experience, it is helpful to newly adjust the specific structures and workflows of such target agreement processes while a systematic competency management is being introduced. It is also crucial that the data gathered in employee performance interviews – and without such employee performance interviews, a performance assessment system cannot work – are systematically recorded and transferred into a qualification and support plan.
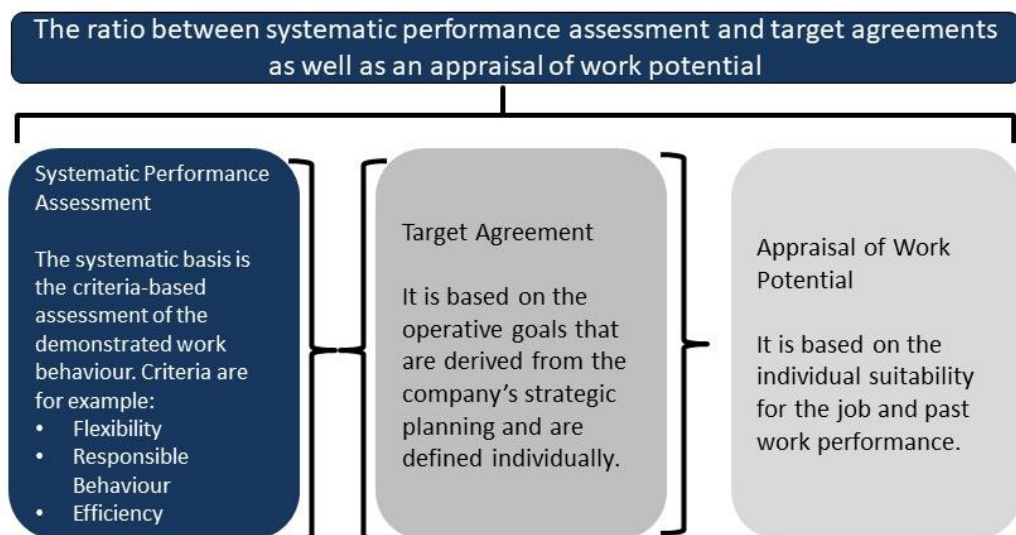


**Figure 9**

It should also be considered that the measures that are initiated on this basis correspond with the career paths as described in the career model.

In any case, those responsible should always make sure that the individual modules of the competency management fit precisely, because that is the only way there will be usable synergies.

## Analyzing the Compatibility of the Existing Compensation System and the Career Model

Competency Management first and foremost serves to fulfil requirements. Naturally, if they perform well, employees expect to be paid accordingly. In the large collective agreement fields of the German electrical and metal industries (Pay Framework Agreement – ERA) and the German public sector (Public Service Wage Agreement TVöD), a collective agreement was reached in which a variable compensation was tied to a base pay. In particular, the ERA agreement in the German federal state of Baden-Württemberg gives specifications for a systematic task analysis and task assessment and thus provides a model procedure which we find to be very well suited for developing the job profiles that are necessary for a systematic competency management (this model procedure is by the way also very well suited to be used by companies that are not bound by collective agreements).

But companies should refrain from just using an existing standard solution, since compensation systems are a rather complex matter and need to suit a company's performance culture.

Nevertheless, when it comes to individual aspects of decision-making, it is legitimate to take the experiences that were made in other companies into consideration. For example, nowadays many companies work with salary ranges. It can be demonstrated that, unlike fixed compensation amounts for each level, salary ranges are best suited for being combined with a career model, for the following reasons:

- On the one hand, the existing salaries can be integrated more easily and
- On the other hand, it becomes possible to differentiate between job profiles on the same qualification level. That way, a greater variety in the categorisation of job profiles and the assessment of individual qualifications is created.
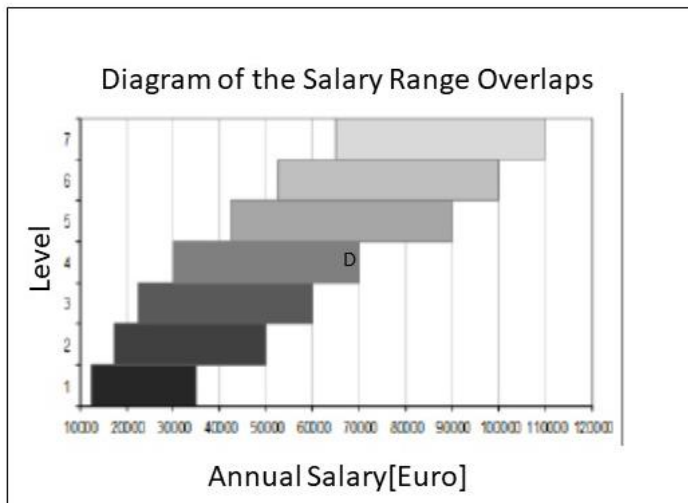
**Figure 10**

In this example, each employee can

- assess their individual potential salary development based on the salary ranges assigned to each career level.
- L
- earn about the minimum and maximum salary of each level.

The last one is unfortunately not an option for defined salary groups (e.g. ERA) with fixed amounts. But by making use of the full range of possible compensation amounts (cf. ERA and TVöD), a certain variability and differentiation of work performances can be achieved. It is crucial to consider all these possibilities each time, since competency management does not only consist of transparent career models, but also includes an attractive compensation and/or rewards system.
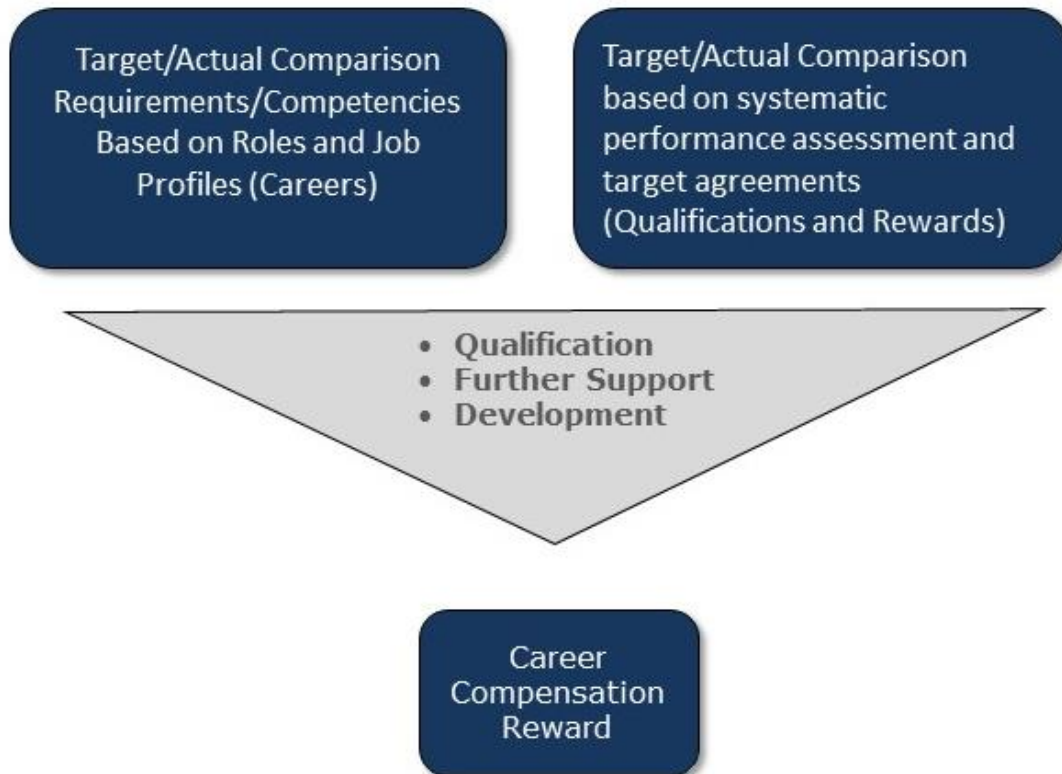
**Figure 11**

And for the sake of completeness, it should be mentioned that all of this should be complemented by an analysis and prognosis of the personnel costs. Because a career model is no good if it is prohibitively expensive!

# The Importance of a Suitable IT Solution

As has been already mentioned, the personnel management as described here is based on knowledge. "*Because only when there is certainty about which employees are needed where and with which qualification, does it become possible to plan proactively and react*." To use this knowledge in a targeted manner, the personnel management can rely on systemic help. A key factor for success are IT solutions which process the incoming mass data and offer structures which can be adapted to the individual company requirements.

**Figure 12**

Strategic competency management can be supervised long term with the right software. Once a company has found and defined the right strategy, a fitting software solution can make sure that the competency management is carried out long-term and in a structured manner, thus ensuring that the company's business strategy is pursued long-term. Therefore, if the goal is to properly implement competency management in a company, it should be done long-term and in a systematic way. To achieve this, it is necessary to involve the people planning such a project in the company's strategy development, as we mentioned at the beginning of this article.