

# A MODEL FOR MANAGING HUMAN RESOURCE COMPETENCIES STRATEGICALLY

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## ABSTRACT

*The current approach to build a Human Resource Management system in a company is the competency-based approach. It helps organizations focus on what is needed to succeed in today's competitive business environment. For a sustainable competitive advantage, strategic management of every company resources, together with Human Resource, is of vital importance. As Human Resource is the one that drives other resources in the company, it is the first to be managed strategically. The need to manage the Human Resource strategically and to do it competency-based necessitates a joint approach to the system. In this paper, we suggest a model for managing Human Resource competencies strategically.*

## ÖZET

*Şirketlerde İnsan Kaynakları Yönetimi yapılandırılırken tercih edilen güncel yaklaşım yetkinlik bazlı yaklaşımdır. Bu yaklaşım, şirketlerin günümüzün rekabetçi piyasalarında başarılı olabilmeleri için gereken hususlara odaklanmalarına yardımcı olur. Sürdürülebilir rekabet avantajı yaratmak için, tüm diğer kaynakların olduğu gibi, İnsan Kaynaklarının da stratejik bir bakış açısıyla yönetilmesi yaşamsal önemdedir. İnsan Kaynakları, işletmenin diğer kaynaklarını harekete geçiren asıl kaynak olduğundan, stratejik yönetilmesi en öncelikli olmalıdır. İnsan Kaynaklarının hem yetkinlikler bazında ve hem de stratejik bakış açısıyla yönetilmesi gerekliliđi, her iki unsuru da içeren ortak bir yaklaşımın geliştirilmesi zorunluluđunu ortaya koymaktadır. Bu makalede, İnsan Kaynakları yetkinliklerinin stratejik yönetimini amaçlayan bir model önerilmektedir.*

## COMPETENCY-BASED MANAGEMENT OF HUMAN RESOURCE

Today's fast-changing competitive landscape requires that the basis for recruiting, selecting, and compensating employees is their competencies. Competencies can be described as behaviors that distinguish effective performers from ineffective ones, can include motives, beliefs, and values, and are generally representative of the tasks and activities used to accomplish a specific job (McLagan, 1996:61). Groups of competencies typically include knowledge, skills, abilities, or characteristics associated with high performance on the job. Knowledge is the understanding needed for a particular subject or process, while the skills would include both the technical and non-technical requirements to accomplish a task. Abilities are those appropriate on-the-job behaviors needed to bring both knowledge and skills to bear (LeBleu and Sobkowiak, 1995:8).

The roots of competency models date back more than 20 years, and represent a process that was popularized by the late psychologist, David McClelland (Lucia and Lepsinger, 1999:3). A competency model describes the particular combination of knowledge, skills and characteristics needed to effectively perform a role in an organization and is used as a Human Resource tool for selection, training and development, appraisal and succession planning (Lucia and Lepsinger, 1999:5).

The construction of a competency model calls for the correct identification of the critical competencies required for effective performance. In order to achieve correct identification, the designer of the model should first develop an approach to analyze the company. Building a so-called competency model based solely on the beliefs and opinions of a group of people can rarely produce the expected outcomes. (Gaudet et al., 2003:23).

Briscoe and Hall (1999) postulated that there are at least three approaches for competency model development after they looked at 31 leading North American organizations with strong involvement in

executive development efforts to obtain their data: Research-based, strategy-based and values-based (Briscoe and Hall, 1999;38).

A research-based competency framework relies primarily on two basic approaches; “Behavioral Event Interviewing” and “interviews or surveys with executives or Human Resource professionals on the executive skills critical to their current performance.” Behavioral Event Interviewing involves interviewing selected executives because of their top performance. These executives describe “critical incidents” that exemplify the keys to their success. Briscoe and Hall noted that 12 of the 31 companies in their study used this approach (Briscoe and Hall, 1999;39-40).

The strategy-based approach sets competencies for the organization based on the future needs of the organization, not past competencies. These strategic level competencies allow for rapidly changing environments including technological fields. In the study, 9 organizations directly used the strategy-based approach and several others gained some indirect benefit as well (Briscoe and Hall, 1999;40-42).

The values-based approach applies “idiosyncratic, normative, or cultural values to construct competencies.” Using this definition, Briscoe and Hall discussed the possibilities of using formal or informal values to construct the competencies needed. The method included asking the senior executives to write specific desired requirements in order to use the exact language in competency formulation. There were 4 of 31 companies that used this technique directly and at least 5 more out of the 31 that partially used this technique (Briscoe and Hall, 1999;42-43).

Uyargil (2004) also mentions about these three approaches. Neither Uyargil’s nor Briscoe and Hall’s study mention about a model or methodology for implementing these approaches. They compare advantages and disadvantages of them. In Uyargil’s study, as well, it is clear that the only strategy-based approach suggests a forward-looking structure and other two approaches are predicated generally on company’s achievements in the past.

## **CREATING A STRATEGY-BASED COMPETENCY MODEL**

The development of a strategy-based competency model starts with understanding the strategy formulation process. There are mainly two different approaches to strategy formulation process in the Strategic Management literature. During the 1980’s, the principal focus of interest was the link between strategy and the external environment. In the works of Michael Porter (1980), analysis of the industry structure is the starting point of the process and then the company defines its competitive positioning relative to the competitors. It is an outside-in approach. On the other hand, the resource-based view’s starting point is the internal environment “resources” of the company. It also deals with the competitive environment facing the organization, but it takes an inside-out approach. This approach is more commonly associated with the works of Hammel and Prahalad (1990), Barney (1991), Grant (1991) and Peteraf (1993).

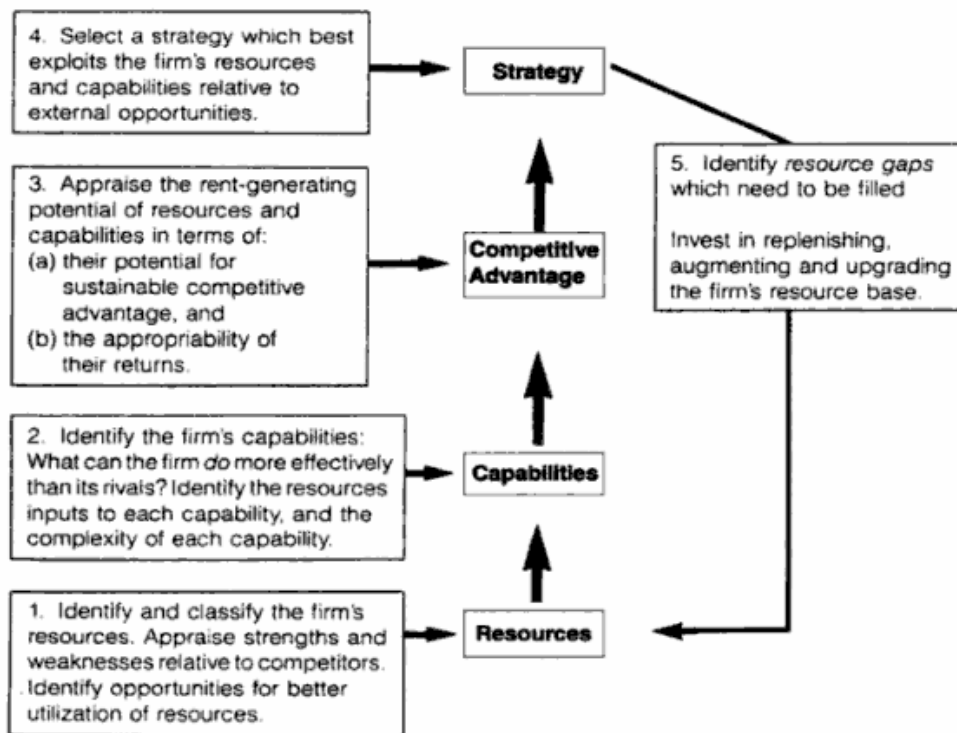
Because of its recognition of the potential for human assets of organizations to provide competitive advantage, many academic authors have applied the resource-based view to understanding the role of HR in organizations (Barney and Wright, 1998;31-32). For example, Wright, McMahan, & McWilliams (1994) used the resource-based framework to examine how a firm’s Human Resource can be a source of sustainable competitive advantage. Lado and Wilson (1994) explored the potential for HR practices to be a source of competitive advantage. Snell, Youndt, and Wright (1996) attempted to integrate the resource-based view with the concept of organizational learning. Additional applications of the resource-based view to Human Resource are discussed in Jackson and Schuler (1995).

Barney and Wright (1998;33), employing the resource-based view of competitive advantage, made an analysis to provide executives in the Human Resource function with the tools necessary to analyze how they can manage the function to develop a firm’s people as a source of sustainable competitive advantage. They propose that to identify the value of a firm’s Human Resource to organizations as well as the proper role of the Human Resource function in managing the firm’s Human Resource to achieve such an advantage, the questions of Value, Rareness, Imitability, and Organization (VRIO framework) should be asked. They concluded that the VRIO framework, in addition to highlighting the important role that the Human Resource Executives plays, provides guidance for them in how to effectively gain and maintain the role of strategic partner (Barney and Wright, 1998;43).

As Human 'Resource' Management being the focal point, the resource-based approach gives us more opportunity to explore the capacity of the Human Resource to create competitive advantage for a company. In this respect, the resource-based strategy analysis framework developed by Grant (1991;115) provides a practical tool to assess the contribution of the company's resources to the strategy (Exhibit 1).

Grant's framework (Grant, 1991;115) starts with the identification and classification of the resources. Grant accepts that there are 6 major categories of resources: Financial, physical, human, technological, organizational resources and reputation (Grant,1991;119). Company resources can be defined as an inventory of available factors that are owned or controlled by the firm. Resources are converted into final products or services by using a wide range of other firm assets and bonding mechanisms such as technology, management information systems, incentive systems, trust between labor and more (Amit and Schoemaker, 1993;35).

**EXHIBIT 1:  
A RESOURCE-BASED APPROACH TO STRATEGY ANALYSIS:  
A PRACTICAL FRAMEWORK (Grant, 1991;115)**



Capabilities are information-based, tangible or intangible processes that are firm-specific and are developed over time through complex interactions among the firm's resources. Capability refers to the capacity of a firm to deploy resources (Amit and Schoemaker, 1993;38).

According to Grant, there is a key distinction between resources and capabilities. Resources are inputs into the production process — they are the basic units of analysis. On the other hand, a capability is the capacity for a team of resources to perform some task or activity. While resources are the source of a firm's capabilities, capabilities are the main source of its competitive advantage (Grant, 1991;118-119).

Both in Grant's and Amit and Schoemaker's definitions, we see that the capability arises as a result of interactions among multiple resources. Only the human beings can make the other resources produce various capabilities and Human Resource gets the privilege of being the initiator of the process.

These capabilities lay the ground for the company's core competencies. Not all of the capabilities can be classified as core competencies. A core competency provides customer benefits, is hard for competitors to imitate and can be leveraged widely to many products and markets (Hamel and Prahalad, 1990;88). It is the management ability to make the resources interact through a value-creating process and come up with a set of core competencies that differentiate the company from the competitors and create competitive advantage.

At the strategy selection stage, the company will determine and declare its strategy as a manifesto of differentiation from competitors and a formula of sustainable competitive advantage. The top management should select a strategy which best exploits the company's resources and capabilities relative to external opportunities. They should be able to figure out the core competencies of the company and base the strategy upon it.

At the last stage, there is the identification of resource gaps which need to be filled. The management either exploits or creates new core competencies necessary to succeed in the competition. They should invest in replenishing, augmenting and upgrading the firm's resource base. Whenever needed, they should create, develop or acquire new resources in order to create new capabilities and hence critical company core competencies.

## **A Model for Managing Human Resource Competencies Strategically**

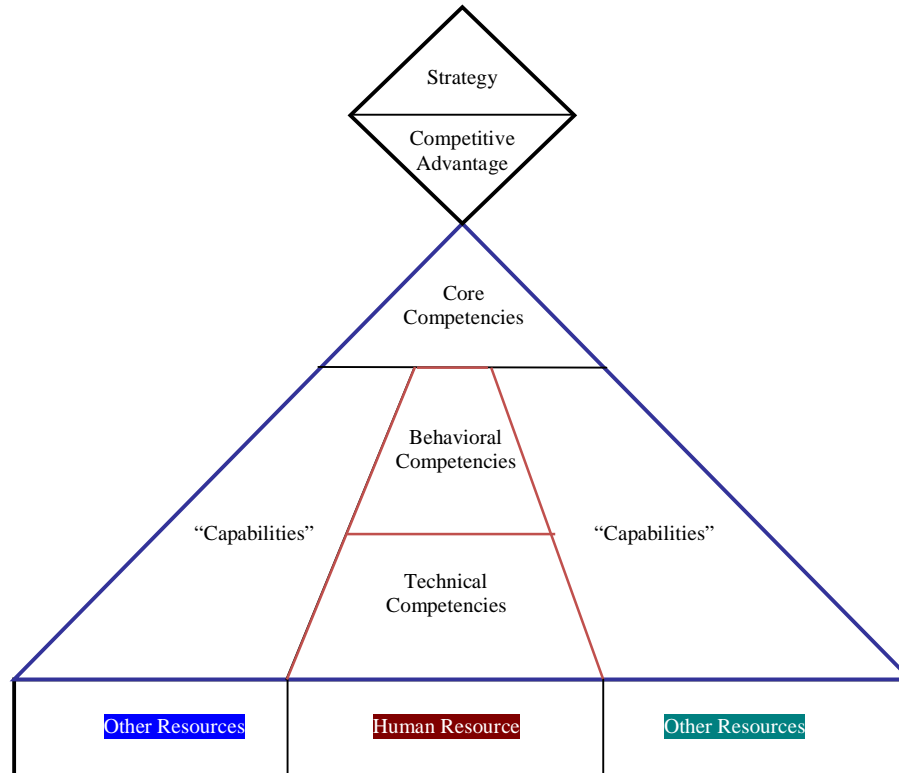
As a member of the top management, Human Resource Executive has an active role during the strategy formulation process, especially for the human related issues. Once the strategy is formulated, he/she will create the Human Resource competency model in accordance with the strategy requirements. In order to ensure the consistency between the strategy and what is needed to make it happen, there needs to be methodology designed in line with the strategy formulation process.

Taking Grant's framework (Grant, 1991;115) as the reference point and elaborating "capabilities" item from the point of view of competency modeling, a model can be developed as a guide for building a Human Resource competency model in relation with the company strategy (Exhibit 2). His framework helps the top management to formulate its resource-based strategy. It links company resources to the company strategy over the concept of the "capabilities". By the same way, the Human Resource's competencies are linked to the company strategy.

Our model uses the same structure with the Grant's framework. But, the process flow is not bottom-up but top-down. It takes the stage after the strategy is formulated. At the top of the model, there is the statement of competitive advantage of the company and its strategy. This statement is the manifesto of company core competencies. Core competencies are the collaborative products of company capabilities. Capabilities arise from the interaction of the multiple resources. Human Resource competencies will take the lead to initiate the interaction process between the resources, thus the company core competencies will be created. At the bottom of the model, there are the company resources together with the Human Resource.

In our model, we take a closer look to the Human Resource "competencies" section. This is the Human Resource competency model section incorporated into our extended strategic model. This incorporation demonstrates the interrelationships of Human Resource with other resources as well as the ones with core competencies and the company strategy.

**EXHIBIT 2:  
A MODEL FOR MANAGING HUMAN RESOURCE COMPETENCIES  
STRATEGICALLY**



Human Resource Executive ensures that the content of the competency model must demonstrate the competencies that employees must have, both now and in the future, to achieve the company's strategy. They must include the more general behavioral competencies needed for success in their organizational roles (e.g. leadership, teamwork), as well as the specific technical (e.g. industry specific know-how, ability to use a specific software) requirements needed. This two layer structure reflects the Human Resource's dual mission of being behaviorally oriented and technically skilled to create company core competencies by interacting / manipulating other company resources.

Technical competencies refer to competencies in employees' area of specialization and it can be defined as required skill and knowledge to do a particular job. (Rowe, 1995;13). They describe what people have to do in order to perform satisfactorily their job. The management of technical competencies has a strategic dimension as sometimes they take the form of industry-specific technological know-how. For example, if a company decides its strategy and changes its business model from wholesale to retail in order to expand in the global markets, it needs to develop retail know-how in order to continue to grow and become a strong global player. The retail related technical competencies like retail merchandising, range segmentation, store space management, shelf management, etc., should be acquired by the organization.

Behavioral competencies are the behaviors adopted when exercising a job. They describe how people do their job, therefore, define and evaluate personal behavior (Rowe, 1995;13). They can be defined as generic or company-specific. Defining these competencies generically would loosen their ties to the company's strategy. Not to cause this strategic mistake, they should be defined as company-specific and explained with specific behavioral examples in relation with the content of the strategy and the company culture.

Turning back to our example, retail operations need IT-intensive infrastructure in order to manage all product flows between and within stores. The company needs to have more IT literate and analytical minded Human Resource. Probably, "Analytical Thinking" will be the new or renewed competency of this company. Besides, competencies like "Customer Focus" must be redefined in transition from wholesale to retail business. In wholesale, resellers are the paying customers while in retail it is the end-user who pays the bill. There should be changes in the definition of the competency reflecting this difference.

If it would be a values-based or research-based approach of competency modeling, it would end up with a model that tells what to have to do wholesale business more effectively. On the other hand, if one starts with a strategy analysis and examines what to have to be successful in the competition, he/she will end up with a set of new or modified competencies.

The competency profiles should be defined to reflect necessary competencies to achieve best performance in implementing the strategy for each and every position in the company. Moreover, all the competencies included in the competency model must be aligned to support general Human Resource Management functions: career management, learning and development, succession planning, employee performance management as well as recruitment and staffing.

## CONCLUSIONS

Strategic management of every company resource is about creating a competitive edge in the business environment. Human Resource is a very critical asset of companies and they try to make the most out of it. It is the only resource having the ability to initiate the creation of that competitive edge, if managed properly.

Today, proper management of Human Resource can be performed if it is based on competencies and handled strategically. Our model suggests an approach to make that possible. The parallel structure of the model to the Grant's strategy analysis framework (Grant, 1991;115) makes it easily understandable and can be put into practice parallel to strategy formulation process.

The alignment of the competency model with the strategy of the company through strategy formulation process makes the strategic verification of the competency model easier relative to that of values-based and researched based approaches. The built-in advantage of being forward-looking puts it in an advantageous position compared to the other two approaches as they generally are predicated on company's achievements in the past. It also gives it the flexibility of being sensitive to the changes to the business environment as it will be revised when the strategy of the company is changed.

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