FHN-320-E
February 1999

Evaluating and Developing Management Competencies

The New Business Reality

Recent years have seen a major change in the world of business, with increasing globalization and the introduction of new technologies in production and business management (Ghoshal and Bartlett, 1997). These changes have given rise to new, flatter organizational structures, with fewer hierarchical levels, in which jobs are constantly evolving. The typically vertical, local career path is giving way to lateral or spiral paths, with a marked emphasis on international experience. It is becoming increasingly difficult to maintain stable jobs.

This new state of affairs has also altered the implicit contract between employees and company (Rousseau, 1995). Traditionally, companies offered job security in exchange for doing a good job. Now, increasingly, what employees look for in a company is the opportunity for professional development that will ensure their future employability. And companies seek to maximise their employees' competencies to ensure future results in an uncertain world. Whereas the old implicit contract was based on employees' willingness to stay with the firm for a certain length of time, the new contract is based on employees' professional development.

Some managers may wonder what will happen if they train people and then those people leave. The only answer to that is that things will be even worse for them if they don't train people and yet the people refuse to leave. In the new business environment a company's survival will depend on its employees' ability to foresee the future and make it happen (Herriot and Pemberton, 1995).

In this new context the human resources department acquires a new mission. Before, it had a fairly bureaucratic administrative task that included payroll processing, preparing job descriptions, and generic employee training. It was basically reactive and concentrated on problem solving and firefighting to keep the internal peace. Today, the human resources department has a strategic role, given that the company's most important resource is, to an increasing extent, the people that work in it.

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Last edited: 5/10/16

Today, the human resources department must select, train, evaluate and motivate employees to ensure that the company has the most capable, most committed people possible. Its role is much more proactive. Besides resolving the company's labour problems it is expected to provide added value. In the new business environment the task of the human resources department is to provide the company with the set of competencies it needs to make it competitive (Sparrow, 1994).

Performance Appraisal in the New Business Context

Many companies evaluate their employees according to results or objectives. This sort of evaluation focuses on *what* is achieved: number of units sold, percent increase in market share, improvements in profitability or quality, etc. Usually, various financial incentives depend on achieving these objectives, typically within a one-year horizon. Given that such objectives are easily quantified and measured, the valuation can be reasonably objective. It is usually done by the employee's superior, who acts as judge, interpreting the objective data in the light of relevant economic, business or personal circumstances.

However, evaluation by objectives looks at past results and so does not necessarily help to develop the competencies needed to achieve results in the future. An evaluation that focuses exclusively on results may even be counterproductive when it comes to fostering competencies, as people will be interested only in *what* they achieve, not *how* they achieve it. In extreme cases it can even encourage behaviour inconsistent with the competencies the company wishes to develop in its employees (Pfeffer, 1998).

That is why more and more companies are starting to evaluate their employees not only by objectives but also by the competencies they develop. One possible procedure recently proposed by Kaplan and Norton (1996) is what is known as the "balanced scorecard". Under this procedure indices of competency are added to indices of results, and a weighted average is calculated to obtain a final index, which tends to be tied to variable pay.

Although there are obvious advantages in enriching the traditional evaluation by objectives, the balanced scorecard procedure has a drawback. Because it mixes two such different concepts as objectives and competencies, it may give rise to perceptions of unfairness. Such perceptions are potentially very damaging to employee motivation and performance (Cardona, Lawrence and Bentler, 1999), and may even stifle employees' creativity and capacity for innovation (Amabile, 1998).

Competencies are more difficult to measure than objectives, and developing them requires a deeper kind of motivation than the purely extrinsic motivation of the end-of-year bonus. They should therefore be treated differently, both in evaluation and in remuneration. To do this, we first need to understand exactly what we mean by competencies.

What are Competencies?

The concept of "competencies" started to be used in a business context after it was used by McLelland (1973) to show that a person's success in a job cannot be predicted solely on the basis of intelligence tests. Subsequently, Boyatzis (1982) made a study of management competencies in which a group of managers were asked what specific behaviours had made them more effective in their jobs. However, in this latter study competencies were still not clearly defined, and the concept was used to cover aptitudes and knowledge as well as attitudes and personality traits.

Over the years, the scope of the term "competencies" has been gradually narrowed, until eventually it has been restricted to observable behaviours that contribute to success in the performance of a task or work assignment (Woodrufe, 1993). If we adopt this definition, we still have to distinguish between two types of behaviour: sporadic and habitual. Certain sporadic behaviours, such as having a creative idea, may contribute very significantly to a person's success in a task or assignment. However, we prefer to use the term "competencies" exclusively to designate habitual behaviour, as it is their habitual nature that gives competencies their predictive character.

We therefore define *competencies* as *observable and habitual behaviours that enable a person to succeed in her activity or function.* Competencies are objective insofar as they are observable, but they are also subjective insofar as the perception of a competency depends on the observer. This is not the case with targets and objectives, which are quantifiable and measurable independently of the person who measures them. This means we have to be much more careful when evaluating competencies than when evaluating objectives, as we have to take the subjective element into account. To start with, we need to have a list of competencies, with clear and detailed definitions that different observers will interpret in the same way. This raises the question of what types of competencies should be used to evaluate a company's employees.

Types of Competencies

There are two basic types of competencies: technical or job-based competencies, and management or generic competencies. Technical competencies are the distinctive traits or features that make a person perform exceptionally well in a particular job. They usually include specific knowledge, skills and attitudes that are needed for a particular task. For example, certain jobs may require a command of English or typing skills. English or typing skills would thus be technical competencies for those jobs. In this note we shall not discuss this type of competency, which may be very specific to each particular case.

Management competencies are observable and habitual behaviours that enable a person to succeed in her management role. They are more generic, and although each company may emphasize some of them more than others, they can be studied as a group on the basis of an analysis of the management function. From now on we shall be dealing exclusively with management competencies.

According to the anthropological model of the company proposed by Pérez López (1998), the management function consists of designing strategies that produce economic value, developing the capabilities of employees, and getting them to identify with the company's mission. A strategy that generated economic value while impoverishing the capabilities of employees or undermining the unity of the company would not be valid, as, among other things, it would sap the company's ability to create economic value in the future. Therefore, besides the strategic dimension, the management function also includes what we have termed the "intrategic" dimension (Cardona and Chinchilla, 1998).