



How to Identify the Competencies that Count

Excerpts from *Business Intelligence* Interview with Geoff Ryan

Competencies are in danger of suffering the fate of other richly promising management techniques. Popularized, simplified and misunderstood, they have often been diluted to the point where they prove sceptics who doubt their value right.

Geoff Ryan, European representative of Competency International, believes that companies are missing a golden opportunity to improve the effectiveness of new hires, promotions and talent development. "Competencies can be highly effective predictors of future performance when they are based on hard evidence," he says. The problem lies not with the concept, but its application.

Generic competencies, or poorly validated competencies, will guarantee disappointment. Establishing specific relevance and proving their validity are the only ways to reap the pay-off from competencies, according to Ryan. It takes a rich source of financial performance data married up with key competencies in pivotal roles to tease out their role in individual performance. Deciding where to apply this analytical technique, therefore, calls for some careful thinking.

While competencies are relevant to every job, some jobs are far more critical to the organisation than others. It comes down to answering a simple question: "Who are the ones who really make the money for us? These people are not always the managers," says Ryan.

To make certain they are focusing on the key roles, organisations need to be sure they have a sound model of performance. The task starts with isolating the drivers of performance at corporate level, either through a balanced scorecard project or a similar strategic programme, before drilling down to individual roles. "You've got to dig deep into specificity about success factors in your organization," says Ryan. "You've also got to do the statistical analysis to show which competencies account for differences in performance."

There is evidence that applied in this way, competencies can lead to performance insights and breakthroughs.

Competency International has worked with one of its global clients and dug into the competencies/financial data link so as to learn how to steer performance improvement.

First of all, it set about discovering the role played by competencies in determining the success of one of its core groups, the general managers responsible for the centres that deliver products and services, day-in, day-out to their customers.

Using a critical-incident interview technique, Competency International studied a number of top-performing managers to isolate the competencies that made the difference. Next, by analysing financial results against managerial contribution, it found that competencies accounted for approximately 40% of the variance in general managers' EBITDA performance.

Plotting a number of years' financial data against managerial contribution predicted that capturing 10% of the value added by key competencies would generate 6% uplift in performance EBITDA. "Competencies mean that you can have a much more scientific approach to HR and performance," says Ryan.

There are hundreds of competency models on the market, as well as web-based tools for identifying competencies in a particular role. "Some popular off-the-shelf questionnaires only explain about 10% of the variance in financial performance," claims Ryan. There is, he claims, no short cut to getting to the heart of competency-driven performance in an organisation.

Once the key competencies have been identified for the money-making roles, they can be used for identifying other high-fliers, recruitment and for improving the performance of B performers. But not overnight.

"People must be prepared to change the way they think and act," says Ryan. Given the motivational will, there are ways of nurturing competencies although it can take months of training and practice.

The business case, though, for investing the effort to move an organisation's performance towards superior performance defined as one standard deviation above the mean can be substantial.

Although the work calls for sustained effort, it has, in Ryan's experience, never been fruitless. "The worst case risk is that we could carry out all the interviews and analysis and not find a set of independent variables (competencies) that account for high performance," he says, "but that has never happened. When we have hard data, it always works. And individuals like it because they get detailed feedback about themselves."

There is also the cost of not applying this kind of approach. "All too often HR can reduce rather than add value to the organization by relying on the use of instruments that have not been validated specifically within their organization. This is an opportunity to take a more financial, statistical approach to raising performance."