

Competency-Based Management and Global Competencies – Challenges for Firm Strategic Management

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The resource-based view of the firm (which was launched decades ago) betted on resources, capabilities and competencies in order to obtain sustainable competitive advantage. Firm management had to identify the core competencies that defined the entity and then to manage them efficiently and with efficiency. Recently, some major challenges occur, bringing with them a whole series of opportunities and threats. On one hand is the process of continuous globalization – which forces firms to globally search and compete for global competitiveness. On the other hand, is the process of transition to a knowledge-based economy – which forces firms to think differently about their intangible assets and human resources related competencies. So, at least two major shifts have to take place: from the resource-based management to competency-based management, and from cultural specific competencies to global competencies. These changes ask for a completely new strategic management approach. By this paper, we would like to revise the existing literature in the field (which is very fragmentary), in order to draw and launch after that a unique discussion framework, able to bring together all the above-mentioned aspects.

Field of Research: Management, Contemporary Issues in Management

I. Introduction: From resources-based management to competencies-based management

According to *the resource-based view of the firm*, it is the *strategic management's* job to grow and exploit the unique set of resources and capabilities that a firm possesses and to continuously develop these resources. The *strategic capability* defines the possibility of the firm to use its value generating resources in order to create a privileged position comparative to its competitors. But, what is really important for an organization to know is *what* does it know to do – which means the way it combines the unique set of resources in order to create value.

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This knowing of the way resources are transformed into products and the particularities of this process defines *organizational competencies*. Both competencies and capabilities are important for an organization: while *the competency* represents the “theoretical” side, the *capability* represents the “practical” part, equally necessary for any value creating process.

Two of the leading exponents of this perspective, Prahalad and Hamel (1990), argue that *corporations can identify a relatively small number of underlying competencies that give them a sustainable strategic edge in the market place*. Ulrich and Lake (1990) and Lawler (1996), argue that *organizational capabilities* allow organizations to perform in particular ways that are critical to business performance. These capabilities reside in the systems, structures, cumulative knowledge and mindset of the organization. As a result, they are hard to develop and hard to duplicate, but they are potentially a significant source of competitive advantage.

In general, *the use of competency* in the strategy literature (see Dainty, P.) focuses on the *core competencies and capabilities* of organizations as the *main sources of competitive advantage*. *Core competencies* reflect the collective learning in organizations – how to coordinate diverse production skills, integrate multiple streams of technologies, and market and merchandise diverse products and services. (...) For a core competence *to create value and provide a valuable basis for synergy* among the business in a corporation, it must meet three *criteria* (Dess, G., Lumpkin, G.T., Eisner, A.B., 2007):

- the core competence must enhance competitive advantage(s) by creating superior customer value;
- different business in the corporation must be similar in at least one important way related to the core competence;
- the core competence must be difficult for competitors to imitate or find substitutes for.

As the *global competition intensifies*, managers will be more and more jugged upon their ability to identify, cultivate and exploit *distinctive competencies* that may possible the growth of the firm. So, on the short term, *firm competitiveness* may arise from the price per performance ratio registered for its current products. However, on the long run, the real sources of the advantage must find themselves into the manager’s ability to integrate technologies and production abilities into competencies that allow the firm to adapt rapidly to a changing environment. They do not diminish in time by using; on the contrary, they consolidate as they are discovered and applied (see Prahalad, C.K. and Hamel, G., *The Core Competence of the Corporation*, in Foss, N.J. ed., 1997).

The *Competency-Based Approach* is a research-supported approach based on the primary goal of defining the critical *behaviors* needed for effective and superior individual and organizational performance. Simply defined, a *competency* is (see *Using a Competency-Based Approach: Linking Core Competencies to your Business Strategy*, ThinkWise, Inc., 2007) a set of related behaviors that:

- impact job performance;
- can be measured against established standards; and
- can be improved through training and development.

Competencies are always described as *observable, measurable* behaviors, but they are not simply concrete actions that are easily imitated. Instead, competencies can be manifestations of some underlying intent – driven by a person’s basic motivations, personality, attitude, values, or self-concept. It is an enduring characteristic of a person that predicts behavior across many workplace situations.

The following is an example of a *basic competency structure* (see *Framework for Competency-based management*, Human Resource Systems Group, 2007):

- **Core Competencies** – include those key competencies that all employees in the organization must possess to achieve its mandate and vision. These competencies describe in behavioral terms the key values of the organization and represent those competencies that are core to the organization’s principal mandate;
- **Career Stream Competencies** – those behavioral competencies that are common to the all jobs in the stream, and combined with the organization-wide (core) competencies, make up the suite of behavioural competencies necessary for success in the Stream;
- **Technical / Professional Competencies** – tend to be specific to occupational areas, roles and / or jobs within the Career Stream, and include the specific skills and knowledge (know-how) to perform effectively within the jobs of the Stream (e.g. ability to use particular software; knowledge in particular professional areas such as finance, biochemistry; etc.). These competencies could be generic to the Career Stream as whole, or be specific to roles, levels or jobs within the group. The combination of these three types of competencies will make up the competency model for each of the Career Streams.

Under these circumstances, *competency based management* is an approach that recognizes that the most valuable asset of an organization are its people and the competencies they bring to work each day. It provides a strategy to fully exploit and extend those resources for the benefit of both the organization and the individual. The competencies of people include (see Docking, R.):

- **Knowledge** ... about the organisation, about administrative processes and procedures, about clients and about their special area of expertise;
- **Thinking skills** ... including problem solving, analysis, report writing, numeracy and planning skills;
- **Attitudes** ... such as reliability, perseverance, interpersonal behaviour, patience, flexibility and thoroughness; and
- **Motor skills** ... such as eye-hand coordination, dexterity, strength and balance.

As professor Jaafari said (Jaafari, A. 2007), „*the need to shift to a competency-based management* is self evident, (because) according to McKinsey “*the rate at which companies lose their leadership positions doubled from the mid-'70s to the mid-'90s*”. There is thus evidence that sluggish organizations managed along the traditional norms can stagnate or even disappear from the market scene unless they turn themselves into dynamic well performing businesses which requires professionalisation of their managerial rank and file. (...) Transition to a competency-based executive development requires a competency model defined by the Corporate Leadership Council as: *a map to display a set of competencies that are*

aligned with an organization's mission, vision, and strategic goals. The competency model is future-oriented, describing an ideal workforce. The competencies that make up the model serve as the basis for employee management, since they play a key role in decisions on recruiting, employee development, personal development, and performance management."

But how does *competency-based management* works? As a first step, the *competencies* needed by the employees should be *defined*. This process will ensure that the organization is well positioned to achieve its vision and strategic goals and initiatives, and to support its values. Once defined, the competencies will serve as the *foundation* for an integrated set of HR processes and tools that can be used in Career Management, Learning and Development, Succession Planning, Recruitment and Performance Management. Once defined the competencies will provide the *means* for integrating all human resource activities and managing human resources at the *developmental* (Career Management & Learning), the *tactical* (Recruitment, Selection, Promotion, etc.) and *strategic* levels (long term planning to meet the organization's strategic goals). They, therefore, *impact on almost every initiative and activity in the organization that relate to the effective management of human resources* (see *Framework for Competency-based management*, 2007).

II. From cultural specific competencies to global competencies

As Glade, Myxter & Digh argued (see Glade, B., Myxter, L., Digh, P.), "in the new, borderless economy, culture – and cultural competency – doesn't matter less, it matters more. <<As economic borders come down>>, says Doug Ivester, former CEO of Coca-Cola, <<cultural barriers go up, presenting new challenges and opportunities in business>>. (...) Most companies are now in the global game because of their global footprint: their competitors, customers, suppliers, employees, alliances, mergers and acquisitions, technology, knowledge, media, communications and travel all make them global (see "The New Rules of Business")." Because of all these, "as Vladimir Pucik wrote in <<Globalization and Human Resource Management>>, <<Core competencies, invisible assets, and organizational capabilities are key factors influencing long-term success in global markets.>>"

In the context of global competition, managers not only have to deal with different nationalities and work in different countries, but also face an increasing complexity of organizational structures, innovations in information and communication technology and accelerated product life cycles (Mendenhall, Kühlmann and Stahl, 2001). Consequently, *globally competent managers* are fundamentally important for the future success of all multinationals. In order to ensure that they have the leaders they require, organizations face two *critical problems*: the first is in *identifying the qualities or competencies that are needed to operate successfully in this environment*, the second is in *understanding how these competencies can be developed*. Unfortunately, our collective understanding of both issues is, at best, incomplete and attempts to develop global competencies have sometimes been based on misplaced assumptions (see Dainty. P.).

Under these circumstances, we have to follow a model able to integrate *global mindset* at *corporate* and *individual level*, just as Dekker, Jansen & Vinkenbunrg propose (see Dekker, W., Jansen, P., Vinkenbunrg, D.):

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- *at corporate level, a global mindset* refers to how firms balance *organizational processes* like global formalization versus local flexibility, *organizational structure* like global standardization versus local customization, and *hierarchical power* like global dictate versus local delegation (Begley & Boyd, 2003). Jeannet (2000) linked the global mindset to the degree of internationalization, while some authors emphasized other aspects of the corporate mindset, like HRM policy (Kobrin, 1994), or market characteristics (Nummela et al, 2004). Finally, Govindarajan and Gupta (2001) added a cultural dimension;
- *a person with a global mindset* is described as a cosmopolitan with a broader view when dealing with international business activities, with a personal space perspective that extend beyond the personal surroundings, and with the general disposition to be more tolerant of other people and cultures (Boyacigiller et al, 2004; Kedia & Mukherji, 1999). This person is able to conceive global thinking in local contexts and to adapt global strategies to the needs of local environments (Kefalas, 1998). A number of authors describe an individual global mindset as a cognitive structure, map or schema that guides the noticing and interpreting of information (Maznevski and Lane, 2003; Murtha, Lenway & Bargozi, 1998; Schneider & Barsoux, 2003).

This is the context in which Michael McCann emphasized on the “7 *global competencies you need to develop as you expand your business horizons*, according to Morgan McCall and George Hollenbeck:

- ***be open-minded*** – global business means working in a variety of unfamiliar settings, with very different kinds of people, so be flexible in your thoughts and actions;
- ***show an interest in other cultures*** – curiosity about people who are different from you is an asset, it’s how relationships develop;
- ***get used to complexity*** – you’ll be dealing with a lot of ambiguity as you move into a world arena, so be patient and be willing to look at all sides of all issues;
- ***develop a resilient spirit*** – there’s no room for the faint of heart on the international stage so, you welcome challenges and act energetically in dealing with them;
- ***act honestly*** – when everything is changing around you, consistency is very important, so you can begin to depend on one another – and that’s the backbone of good business;
- ***create a stable personal life*** – anchors are important in rough seas, so pay special attention to your private life, and keep it as free from stress as possible;
- ***develop expertise*** – in order to have instant credibility as you venture into new cultures, it’s helpful to be perceived as an expert; (see McCall, M., Hollenbeck, G.).

Table 1 The comparison of competences

			Cross-Cultural Competence (generalized from Black, Mendenthal, 1990; Leiba-O'Sullivan, 1999)	Intercultural Competence (generalized from Dinges, 1983; Dodd, 1998; Kealey, 2000)	Global or International Competence (generalized from Lambert, 1994; Allen, Ruhe, 1997; Black, Gregersen, 1999; Bartlett, Ghosal, 2000)	Multicultural Competence (generalized from Howard – Hamilton, 2003)
III. Multicultural Competence	II. Global or International Competence	I. Cross – Cultural or Intercultural Competence	Stable competences: emotional stability extraversion agreeableness openness to experience conscientiousness Dynamic competences: cultural knowledge cross-cultural self-maintenance cross-cultural self-efficacy stress-management skills conflict-resolution skills cross-cultural relationship perceptual questioning skills	information processing capacity for learning and change communication style stress tolerance interpersonal relations motivation and incentive personal development life stage context of situation		
					world knowledge world language proficiency empathy approval task performance	
						anticipatory anxiousness/anxiety acquisition of knowledge acceptance with privileged status comfort with self and others

(source: Kersiene, K., Savaneviciene, A., **Defining and Understanding Organization Multicultural Competence**, in *Engineering Economics*, No 2 (42), 2005)

Obviously, these seven skills consider only the individual level and its behavior into a multi cultural context. But, it is not enough. The *link between organization and individual competence* can be summarized as follows (Kersiene, K., Savaneviciene,

A., 2005): “on one hand, it is a *link between an organization’s strategic objectives, operational objectives and task and behavior requirements*. Strategic objectives are converted to operational objectives and them – to types of tasks. One the types of competence needed by people performing tasks are identified, the behavior characteristics associated with these competences can be defined. On the other, *individual competence create organizational competence and is one of its constituents*. Organizational competence is the skills of individuals who can blend their expertise with others in innovative ways. Furthermore, individual competence models can play a vital role in every process of human resources management (Briscoe, 1996) – selection, training and development, appraisal, planning (Lucia, Leipsinger, 1999)”.

The *core competence* of many organizations is complex, involving entire organization. One of the most important *factors* regarding its transformation into a constituent is *globalization and international competition*. One of the core competence constituents arising from above mentioned factors is organization cross-cultural competence. Many attempts have been made to *define and redefine cross-cultural competence* over the years. This has resulted in a wide variation of terminology and definitions, pointing to a wide range of implications of cultural competence across different disciplines. The research in the areas of *cross-cultural, intercultural, global, international and multicultural competence* represents separate parallel lines which have not yet merged together. In order to put all of these approaches together, K. Kersiene & A. Savaneviciene built a comprehensible framework, which is very suggestive regarding the content of those four concepts (see Table 1).

Models of global competencies are not found in great abundance. The research is limited. Those that have been identified in the literature have been drawn together by Mendenhall (2001), shown in Table 2.

Table 2 Global competencies

Global competencies	
- Global Business Savvy	- Global Organizational Savvy
- Integrity Managing Cross-Cultural Ethics	- Thinking Agility
- Managing Uncertainty	- Maturity
- Balancing Global Versus Localization Tensions	- Expertise In Negotiation Process
- Inquisitiveness / Curiosity Self Learning	- Conflict Management
- Change Agency	- Community Building / Networking
- Creating Learning Systems	- Stakeholder Orientation
- Motivating Employees	- Improvisation
- Entrepreneurial Spirit	- Establishing Close Personal Relationships
- Commitment	- Courage

(source: Mendenthall, 2001, apud Dainty)

Some of the competencies overlap. Other lists and a later study by Caligiuri and Santo (2001) show a similar set of attributes. They list eight global competencies, within three categories of, ability, knowledge and personality (Table 3).

Table 3 The eight developmental goals of global competence

The eight developmental goals of global competence	
Category	Proposed development goal
Ability	Increase an individual's ability to transact business in another country
Ability	Increase an individual's ability to change leadership style based on the situation
Knowledge	Increase an individual's knowledge of the company's worldwide business structure
Knowledge	Increase an individual's knowledge of international business issue
Personality	Increase an individual's network of professional contacts worldwide
Personality	Increase an individual's openness
Personality	Increase an individual's flexibility
	Reduce an individual's ethnocentrism

(source: Caligiuri and Santo 2001, apud Dainty)

In general, *three competency areas* consistently appear in the studies. These are (see Dainty, P.):

- a set of *Business Knowledge competencies*, concerned with understanding the global business environment and how the company fits into it, including business strategies and products, and the organizational resources to pursue global market opportunities;
 - a set of *Personal competencies*, both cognitive and affective that enable one to operate in the global environment, including being able to cope with change and ambiguity;
 - a range of *Interpersonal competencies*, which include the ability to communicate, manage conflict and operate effectively across cultures.
- Overall, *two points are worth emphasizing* (see Dainty, P.):
- the development of individual competencies cannot be divorced from the core competencies of the organization, or at least its global strategy. An organization is composed of people and it is the competencies that they have which influence the extent to which an organization deals effectively with its business environment;
 - developing global competencies is an individual process and also a matter of degree. While we all may be able to improve to some extent, how many people have the capacity to be truly global managers and leaders is unknown, but is probably limited within the population. Moreover, even if that state is attained by some, it may not last very long as the vicissitudes of the global environment throw up more and new business challenges.

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