

Management challenges in the competence-based organization

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Competence-based management is a relative new way of thinking about how organizations gain high performance for a significant period of time. Competence-based management originates from the theory of competence-based strategic management.²

In practice the application of the competence-based management has especially conducted in the area of managing organizational competence and personal competence. The focus of this article is on the specific challenges management faces when applying competence-based strategic management for the realisation of organization goals and objectives, in order to develop competitive advantage.

A theoretical framework in combination with a step-by-step plan has been developed. The step-by-step plan includes the main challenges which are related to the strategic application of competence-based management. These challenges are explained by means of eight (process) phases. Before continuing with these eight phases, the theory of competence-based management is explained in more detail.

Competence-based strategic management

In spite of the unpredictable character of the future competitive position of organizations, a controlled development of competitive advantage is not unthinkable. Since the beginning 90's of the previous century competence-based strategic management explains how organizations can develop sustainable competitive advantage in a systematic and structural way.

The idea behind competence-based management is that an organization has access to an unique mix of *resources*. Resources are all elements, tangible or intangible, which an organization can use for the arrangement of products and bring services on the market. The resources an organization can use may be either organization-specific or organization-addressable. Vermeylen and Heene (1999) define resources in the simplest form as all inputs used in a production process, resulting in products and/or services.

The difference of the mix available resources between organizations, the speed with which resources are exploited and are develop, plus the costs which are involved, is determinative for the realisation of the organizations competitive advantage.

In other words, a competent organization has the ability (being capable of) to structurally and systematically coordinate and commit resources for creating and distributing value to customers and stakeholders.

In the application of competence-based strategic management, three questions play a central role:

1. *what sustainable resources does the organization need to realize the goals and objectives?*
2. *how should these sustainable resources have to be organised and combined with each other?*
3. *how should these sustainable resources have to be applied to meet the needs and wants of the customers?*

At answering these questions management can choose two approaches: statically and dynamically. The focus of the static approach to competence-based management is entirely at exploiting existing resources to develop competitive advantage in the short term.

In this case strategy means a maximum exploitation of the current organizational competences of the organization. Answering the three central questions from the static interpretation the central issue is to maintain the existing resources of the organization in order to develop sustainable competitive advantage.

The primary aim of the dynamic approach of the competence-based management is realizing sustainable competitive advantage by constant improving the existing resources and obtaining new resources. In this case strategy means a fit between exploiting the available resources and obtaining and developing (modify) new resources.

At answering the three central questions from the dynamic interpretation the central issue is not only to maintain the existing resources of the organization but also the replacement or modification of these resources, in order to develop sustainable competitive advantage. An example of the dynamic approach of the competence-based management is the development of the Senseo-concept.

Senseo-concept

The Senseo-concept (single serve gourmet coffee maker and coffee pods) was developed to offer an answer to the new consumer needs. A busier life style, more and more one and two person households and the shifts in taste profiles have conducted to changing coffee consumption needs. From research it became clear that the consumer was especially in search of an optimum taste, ease of use and individual choice. To offer an answer on this new consumption Royal Philips Electronics and Douwe Egberts³ introduced an entirely new coffee maker with individual 'coffee pods'. Within a minute the machine can produce one or two cups fresh coffee.

The example of the Senseo-concept shows that the way in which management combines and coordinates the resources of both organizations is determinative for the organizations battles for being competent in developing competitive advantage.

Resources versus assets

As said before resources can be described as anything tangible or intangible the organization can use in its processes for creating, producing and offering its products (goods or services) to a market. An organization does not by definition need to be the owner of each resource. The possibility for access and use is sufficient.

Assets by definition belong to an organization and are superior in comparison to the competition. The diagram below can be used to identify the different assets.

Tangible assets		Intangible assets		
Physical	Financial	Human	Technological	Reputation
<ul style="list-style-type: none"> ▪ characteristics ▪ production facilities ▪ location ▪ production flexibility ▪ capacity surpluses ▪ property and equipment 	<ul style="list-style-type: none"> ▪ receivables from clients ▪ cash and cash equivalents ▪ liabilities ▪ equity 	<ul style="list-style-type: none"> ▪ knowledge and expertise ▪ adaptability ▪ loyalty ▪ availability ▪ performance 	<ul style="list-style-type: none"> ▪ patents, copyright, company-secrets ▪ R&D facilities ▪ qualifications of employees 	<ul style="list-style-type: none"> ▪ brands ▪ corporate image ▪ corporate identity ▪ relationship with suppliers ▪ customer satisfaction

Diagram 1: classification of assets

In other words, tangible assets (physical and financial) are 'material' of nature, whereas intangible assets (human, technological and reputation) 'are' immaterial of nature. The example mentioned below of Philips makes clear that by this distinction of assets also not obvious organization assets can be identified.

Royal Philips Electronics

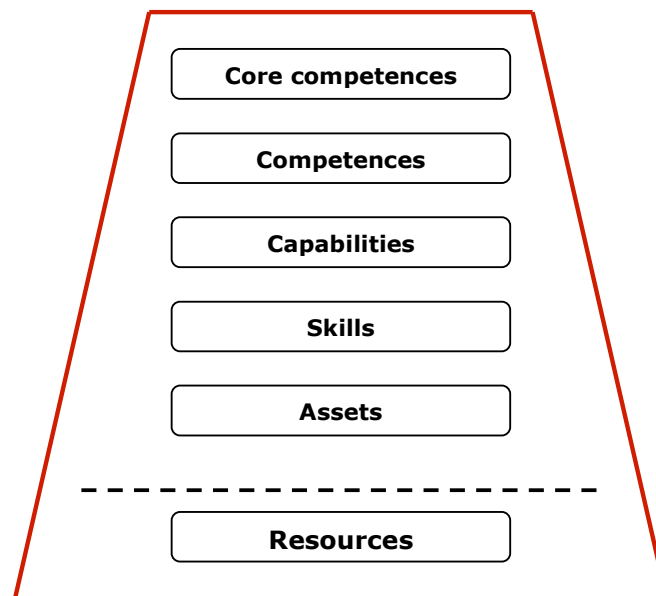
In December 2003 Philips had 100,000 valid patents with a common value of a billion dollar. The first patent that Philips registered was in 1905, for a bulb. Meanwhile Philips stands on top of the list of patents applications and is managing one of the largest patent portfolios in the world. Approximately 500 employees are involved in managing these patents.

Philips sells patents, but also exchange patents for other patents that are necessary for its own product development. However, Philips sells twelve times more patents than it buys. Most of the patents are valid for twenty years, but economic life span is more or less ten years. The worldwide trade in patents is around a hundred billion dollar. For Philips, which plays a prominent role on the market of patents, the patents are of vital importance for developing competitive advantage.

The example of Philips shows that managing the intangible assets 'patents' an important source for production of their own products is, in order to create and distribute value for its customers. In the material and immaterial assets such as these above, Vermeylen and Heene (1999) has pointed out a hierarchical distinction. They call this distinction of assets the '*hierarchy of assets*'.

Hierarchy of assets

As said before the way assets are organized and combined play a central role in competence-based management and thus in realizing sustainable competitive advantage. For assets a certain hierarchy applies. The hierarchy of assets grants value to the separate assets in respect to each other. How higher in the hierarchy, the more complex the nature of the assets is and the larger the value with respect to developing competitive advantage is.



Character 1: hierarchy of assets

Resources can be seen as the foundation, and by placing the resources in the context of an organization the resources get the characteristics of *assets*. Skills and capabilities are placed above assets because they add value by exploiting, combining and incorporating the assets of an organization.

Skills are special forms of capability, usually embedded in individuals or teams, that are useful in specialized situations or related to the use of a specialized resource.

Capabilities are repeatable patterns of action in the use of assets to create, produce and/or offer products to a market. Because capabilities are intangible assets that determine the uses of tangible assets and other kinds of intangible assets, capabilities are considered to be an important special category of assets. Capabilities arise from the coordinated activities of groups of people who pool their individual skills in using assets to generate organizational action.

Competence is the ability (being capable of) to apply assets in a coordinated way (interaction and integration of capabilities) in order to reach a certain aim (Vermeulen and Heene, 1999).

Vermeulen and Heene add to this that the capabilities and skills are the basis of a competence, but capabilities and skills does not always lead to a competence by definition. Vermeulen and Heene give an example of the development of new successful products. For this research and development, marketing, management information systems and production is necessary.

These capabilities are not enough on themselves to bring new and successful products to the market. This is only possible by interaction and integration between these capabilities. If this coordinated interaction and integration of capabilities leads to reach a certain aim (introduce new products successfully) then these capabilities lead to a competence. Thus, a competence is related to processes and interaction between the assets in an organization and lies generally embedded in certain organisational units, such as Sales, Marketing, Logistics or Production.

In order to complete the understanding of the concept of competences, several descriptions are added.

Different forms of competence arise from different levels of activity within an organization. Some organizational competences seem to arise largely from the capabilities of an organization to create and produce specific kinds of products. Other competences seem to derive primarily from the abilities of some organizations to organize and coordinate assets in innovative and effective ways. Yet other competences seem to depend mostly on top management's ability to imagine new strategies for creating value in markets (Chiesa and Manzini, 1997).

Competences may be derived from different kinds of knowledge within an organization. Some competences appear to depend on know-how—practical, hands-on forms of knowledge gained through incremental improvements to products and processes. Other competences depend on know-why—theoretical forms of understanding that enable the creation of new kinds of products and processes. Other forms of competence seem to come from a organization's know-what - a strategic form of understanding about the value creating purposes to which available know-how and know-why forms of knowledge may be applied (Sanchez, 1996, 1997a).

Some organizations have competences that seem to arise from managing a complex web of interrelationships and coordinating a large number of interdependent processes, while other organizations appear to have created competences by simplifying their processes and focusing on a small number of key value-adding activities (Baden-Fuller and Volberda, 1997).

Some aspects of an organization's competence appear to consist of assets and capabilities that apply broadly to an industry context. Other aspects of competence seem to apply more narrowly to an organization's specific product market. Other aspects of competence appear to be unique means of differentiating a organization's product offers within its targeted market segments (Rispoli, 1996).

The highest level in the hierarchy of assets is represented by *core competences*. Core competences is defined as an unique combination of knowledge, capabilities, structures, technologies and processes in an organization, which makes it possible to provide products or services which absolutely no other organization can produce in the same way, at the same moment and at the same speed.

Vermeulen and Heene (1999) define core competence as: the result of the cumulative learning process that takes place within an organization about how to coordinate and deploy assets and capabilities (from a macro level), and is carried mainly by a superior technological advantage. Core competences and competences add the most value to the realisation of the organization goals and objectives.

Starbucks Coffee Company

Not only is Starbucks worldwide known about their service and quality from a customers perspective, it is also well known of their level of quality they realize in retail operations. This level of quality is both realized within the stores as on the supplier side. Starbucks effort to focus on the complete supply chain is extraordinary and it turned out pretty well for customers, employees, coffee farmers, stakeholders etcetera. Starbucks is the #1 specialty coffee retailer with over 16.000 stores in more than 43 countries. In global Retail, Starbucks is a very good example of how to coordinate and deploy assets and capabilities for the creation and distribution of customer value, in order to develop sustainable competitive advantage.

The concept of core competences indicates that managers should not only focus at the portfolios of end products and services of the organization. When managers are capable of analyzing the organization as a set of assets, capabilities and skills, then they can integrate these assets, capabilities and skills in different ways in order to create new products and services. From this point of view managers who are managing the competences of an organization can be seen as puzzlers.

The manager as a puzzler

When managers considers the organization and its surroundings as a 'box' of resources, then the separate parts of an organization are placed in a larger context. In this context, it is this system of resources and the way in which these resources are combined and are coordinated that leads to the development competitive advantage (Vermeulen and Heene, 1999).

Vermeulen and Heene add to this: *"He who wants to understand how the organization achieves competitive advantage, must search for the system resources"*. It concerns here both the resources of the own organization and the resources of the competition.

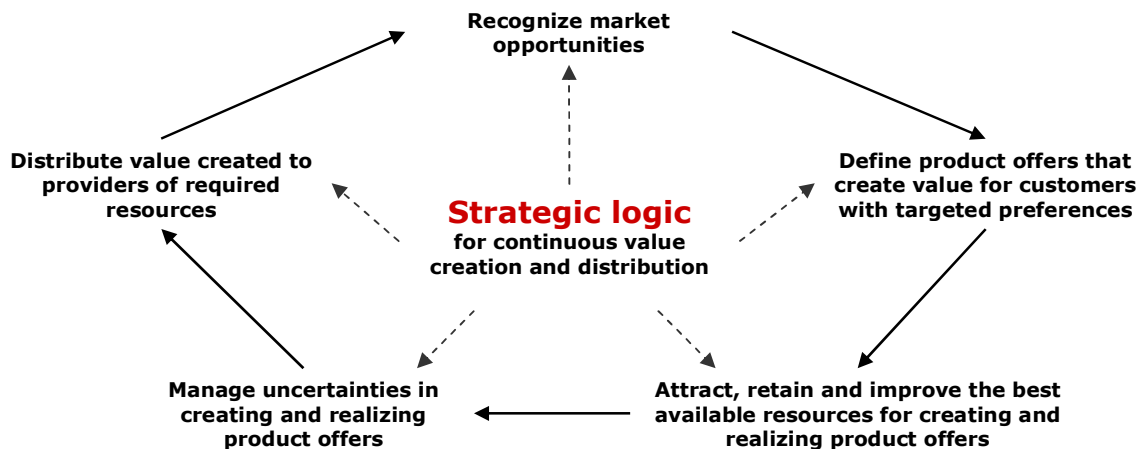
In this context the application of competence-based management leads to a different role for management, including new management challenges. Vermeulen and Heene use the metaphor 'managers as puzzlers', and describe this metaphor as:

A certain model for the puzzle of an organization system of resources that can be imitated does not exist (like the puzzles we sometimes make in our spare time). There isn't even a framework with straight pieces to describe the system of resources. Because he who considers the organization as an open system, realises immediately that the borders with the environment are transparent and flexible. Also the form and the number of the pieces of the puzzle are not clear. Which skills and capabilities are necessary? How many skills, capabilities, tangible and intangible assets must be addressable to an organization? For developing an integrated system of resources management needs extraordinary analytic and appraisal skills. If managers want to develop an integrated system of resources, the pieces of the puzzle eventually have to fit.

The competence-based strategic manager is thus a manager who must have the capacity to think in systems of resources. This is one of the main challenges in the competence-based organization.

Strategic logic

A competence-based organization functions through systemic processes that, when designed and managed under appropriate strategic logic, create a virtuous circle of value creation and distribution (Sanchez and Heene, 2004). This results in several management challenges that must be faced. These challenges (key processes) are mentioned in the character below.



Character 2: virtuous circle of value creation and distribution (Sanchez and Heene, 2004)

Managers in a competence-based organization must discover opportunities for creating value in markets and lead their organization in defining the product and service offers and to realise the wanted products and services. Returning to the example of Starbucks, getting into new markets is core business. Starbucks is growing by around 15 stores a week with the goal to have at least 40.000 stores worldwide, so wherever the customer is, they can value the Starbucks Experience⁴.

Starbucks passion to create value for customers is a daily business and developing new products that add value is also a continuum process. For a long time selling tea was less than 1% of the business, but by adding a complete high quality tea line called TAZO, made from the world's finest tea, this percentage grew distinctively. In total Starbucks offers more than 87,000 beverage combinations to customers. Customers also wanted to buy the music they were listening in the store. So Starbucks enhanced this idea by creating HEAR music - the sound of Starbucks, to improve ways to experience and acquire great music. Recently Starbucks started Starbucks Hear Music™ Coffeeshouses and Media Bars and opened a special Starbucks Entertainment area at iTunes. Also customers can wirelessly browse, search for, preview, buy and download music from the iTunes Wi-Fi Music Store in several Starbucks stores.⁵

Also managers in a competence-based organization must focus and succeed in attracting the best available resources and improving the capabilities of available resources for creating and realizing product offers. Since quality and partnerships are directly related to the Starbucks experience, several initiative helped Starbucks to create more value. First of all Starbucks is Fair Trade Certified™. This label certifies that farmers who grow the coffee receives a minimum price and ensure that certain criteria are met, including decent working and living conditions, freedom of association access to capital and environmental practices.

Furthermore Starbucks initiated C.A.F.E. (Coffee and Farmer Equity) Practices to evaluate, recognize, and reward producers of high-quality sustainable grown coffee. C.A.F.E. Practices seeks to ensure that Starbucks sources sustainably grown and processed coffee by evaluating the economic, social and environmental aspects of coffee production. By being social and environmental responsible Starbucks attracts the best coffee beans worldwide. A good example is the Black Apron Exclusives™. This represents Starbucks expertise in coffee and dedication to the farmers who grow the finest beans.

Furthermore managers must lead in anticipating and coping with several uncertainties that must be resolved in sustaining its value creation and distribution. The Starbucks experience highly depends on the quality of the products and the store partners (employees at Starbucks are called 'partner'). Even with the enormous focus on growth worldwide, management is pushing really hard to keep up this quality standards to foster the unique Starbucks experience. For example with the training and development of all store partners. Starbucks managers are constantly improving training resources, not only at the product knowledge and operational levels, but also in areas that help store partners take ownership in the business. Starbucks consistently spends more on training and development than it does on advertising. Due to all this effort, the employee turnover rate at Starbucks, according to some reports, is 120% less than the industry level (North America) and this pays huge dividends for Starbucks in retaining employees, maintaining connections with current customers and bringing new customers into its stores.

Finally managers in a competence-based organization must devise effective ways to distribute the economic value created by an organization to the providers of resources used by the organization's value-creation process. In this process managers must succeed to mediate the multiple interest of a potentially large number of stakeholders. Actions that show Starbucks is taken their social responsibilities are employee benefits, Fair Trade Certified™, C.A.F.E. Practices policies and several partnerships with environmental conscious and socially diverse companies.

Starbucks buys the highest quality coffee beans in the world and Starbucks goal is to pay premium prices that result in a profit for the farmers and their families. In FY 2004, Starbucks paid on average, \$2.64 per kilogram for high-quality coffee beans. This was 74 percent higher than the commodity market's price during the year. Other examples are that Starbucks has forged partnerships with firms like Johnson Development Corporation, or acquired businesses like Ethos Water. Furthermore Starbucks started the Starbucks Foundation in 1997. The foundation is focusing on improving young peoples' lives by supporting literacy programs for children and families. To date, the Foundation has provided over \$12 million to more than 700 youth focused organizations in the United States and Canada.

These five challenges for continuous value creation and distribution play a significant role in managing a competence-based organization on a strategic level. The more operational challenges (processes) of managing competences in a competence-based organization are discussed in the next paragraph and is called 'strategic working with competences'.

Strategic working with competences

Strategic working with competences is a cyclic process, in which eight important phases are distinguished (see character 3).



Character 3: process diagram of 'strategic working with competences'

Determine the role of the organization within the social-economic environment

First of all management should determine what role the organization want to fulfil within the social-economic environment. Each organization exists of persons who want to cooperate because they have a certain mission which can be executed. A mission aims at what the organization really tries to accomplish, in certain manner in which everyone in the organization can say: 'that is *my* contribution to reaching our goals and objectives.'

When determining the specific role of the organization management must take into account the current strategic position. Management should consider the context of possibilities of the environment, the addressable resources within the environment and the level of involvement of the employees when determining the strategic position. In other words, these aspects are taken into consideration in the strategic analysis. The result of this strategic analysis is directly related to the strategic options the organization has in order to realize the organization goals and objectives, which are determined at stage 1 of 'strategic working with competences'.

Strategic options are the available choices an organization has in order to sell their products or service at the different markets. As the number of options increases, also the flexibility in realizing competitive advantage will increase. Character 4 shows the different strategic options in the context of applying competence-based management.

invest / expand	increase the use of competences by investing in competence development or by for example expanding the existing use of competences by investments in new markets
postpone / learn	postpone any investments in competence development for example by gathering new knowledge about the present competences in order to increase the exploitation of the present competences
disinvest / shrink	disinvest in present competences in order to decrease, narrow or reduce the competences

Character 4: strategic options

The strategic options are relevant when determining the organizations goals and objectives. It can be used as a guideline when formulating the goals and objectives which is considered to be done in phase 1.

Phase 1 - Determine the goals and objectives of the organization

After the mission has been determined, both quantitative and qualitative organization goals and objectives can be formulated. Realizing the set goals and objectives should be crucial for an organization in order to survive in the constant changing environment. While completing an environment and an internal analysis, different strategic options arise for exploiting and the development of the resources. Both analyses are the basis for formulating the organization goals and objectives.

The environment analysis leads to a picture of the environment of the organization (competitors, political, economy, etc.) and of the role of the organization in these surroundings (=strategic position). The strategic position of the organization also indicates what the most important opportunities and threats are, which are important in the process of determine the goals and objectives.

An internal analysis leads to a picture of the available assets and the capacity of the organization to exploit and develop these assets effectively and efficiently (=strategic capabilities). The current mix of assets an organization uses to bring different products and services to the markets influences the strategic options. For example at the end of the previous century Albert Heijn⁶ started to sell their current products in a new market: shops in Shell-fuel stations and NS train stations.

This strategic development is also well interpretable from the mission of Albert Heijn; to fulfil the wishes of the customers always and everywhere. In this case Albert Heijn succeeds in translating their role into a concrete organization goal: opening new shops in Shell-fuel stations and NS train station. The result was the use of new distribution channel and business growth.

Phase 2 - Determine the need for competences of the organization

When the goals and objectives of the organization are clear, the needed competences to realise the goals and objectives should be determined. Determining the need for competences takes place at the level of organisational units (logistics, purchasing, sales, finance, communication, etcetera).

It concerns here thus the competences which are linked to organisational units of an organization. Determining the need for competence leads also to the question if internal and/or external recruitment of competences is necessary for achieving the organization goals and objectives. To answer this question, the present competence must be determined at the level of organisational units and at employee level. This is done in phase 3.

Phase 3 - Inventory the present competences of the organization

With inventorying the present competences a next step can be made to competence-based management. In phase 3 the present competences can be determined at two levels: at the level of organisational units and at employee level.

At the level of organisational units competences should be appointed which are necessary for the execution of the different tasks of the concerning units. For example the sales unit needs different competences to execute the necessary tasks than the units finance or logistics.

At employee level competences are appointed to the employees, distinguished in two different forms: role specific competences and personal generic competences.

Role-specific competences are competences needed to carry out a certain job successfully. To carry out two very similar tasks, such as 'driving a car' and 'driving a van', the same competences can be applied. For this it is necessary to have knowledge about traffic rules, ability to shift gear, to break, to estimate the curves etcetera. Nevertheless, there are some specific competences necessary to drive a van, which are not necessary when driving a car. Think about for example manoeuvre backwards with a long-distance van. This assumes competences which are not required for driving with an ordinary car.

Personal generic competences are attitudes, views and skills of an employee which leads to the capability to tackle successfully several challenges in different circumstances. In fact these competences are from 'a higher order' and can be seen as the basis for acquiring other personal competences. Examples of personal generic competences are ambition, adaptability, leadership and self-confidence.

Determine level of competence

The determination of the level of competence is relevant for determining the degree in which employees apply a certain competence. To examine the level of competence for role-specific competences three to six levels of competence can be distinguished. The levels junior - medior - senior can be used when applying three levels of competence. These three levels can be also translated to six levels: junior 1/junior 2, medior 1/medior 2 and senior 1/senior 2.

A five level system can be described as: novice, progressed, competent, professional and expert. When applying a system for determining the level of competence it is advisable to use language which is common to the organization. Furthermore it is important that sufficiently distinction between the different levels exist. Below is an example of a system with six levels of competence.

Level	Description	Score
level 0 (junior 1)	employee has no experience with the role.	0
level 1 (junior 2)	employee has some experience with the role and carries out the tasks independent but is heavily coached	20
level 2 (medior 1)	employee has sufficient experience with the role and carries out the task entirely independently.	40
level 3 (medior 2)	employee has extensive experience with the role and carries out the task entirely independently. Employee also is managing the planning of the several task and all related work to get the tasks done is handled fully and adequate.	60
level 4 (senior 1)	employee has extensive experience and carries out the tasks entirely independent, even in more complex surroundings. He/she develops independently insights/overviews beyond given tasks. When relevant he/she accompanies colleagues and provide coaching when necessary.	80

level 5 (senior 2)	employee has extensive experience and carries out the tasks entirely independent, even in more complex surroundings. He/she develops independently insights/overviews beyond given tasks. When relevant he/she accompanies colleagues and provide coaching when necessary. He/she is recognised both within and outside the direct work surroundings as an expert and carries out its/its expertise proactively beyond the own organization.	100
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Diagram 2: level of competence role-specific competences

The score from 0 till 100 which are related to the different level of competence is the value which is given to the specific level of competence. This value is used when applying the competence-based reward system which is described at phase 7.

For determining the levels of competence for personal generic competences the levels novice, progressed, competent, professional and expert can be distinguished. The levels are describes in the diagram below (diagram 3).

Level	Description	Score
level 0	employee has no experience	0
level 1	employee has some experience and shows with sufficient support effective work behaviour	25
level 2	employee has extensive experience and shows without support effective work behaviour	50
level 3	employee has extensive experience and shows without support effective work behaviour. He/she also stimulates and support other employees to perform effective work behaviour	75
level 4	employee has extensive experience and shows without support effective work behaviour. He/she also stimulates and support other employees to perform effective work behaviour. By doing so he/she creates an environment in which other employees develop their competences systematically	100

Diagram 3: level of competence personal generic competences

Again, the score from 0 till 100 which are related to the different level of competence is the value which is given to the specific level of competence. This value is used when applying the competence-based reward system which is described at phase 7.

Determine job competency profiles and individual competency profiles

When the role-specific and personal generic competences have been identified the following step is to determine the job competency profiles and the individual competency profiles. A job competency profile describes the most relevant competences for the job or role, as well as the required level of competence.

The individual competency profile describes the competences an employee possesses. For this, competences are differentiated in behavioural criteria. Behavioural criteria are noticeable criteria on which can be assessed to what extent an employee applies the different competences.

When both competency profiles are clear, the next step is to determine to what extent competence discrepancy exists. A competence discrepancy indicates the difference between the present competences and the needed (desired) competences at the employee level.

The inventory of the present and needed competences is especially related to the context in which the inventory takes place. For instance, an organization which develops software should determine many different 'technical' competences. Organizations which are especially focused on Retail will probably determine many 'commercial' competences.

Furthermore it is important in this phase to emphasize on distinction of competence which are considered as necessary to survive in the constant changing environment and which support the realisation of competitive advantage.

Phase 4 - Analyse 'the fit' between the present and needed competences

When the first three phases are finished an analysis of the fit between the present and needed competences can be made. The determination of this fit takes place at the level of organisational units and at the level of employees (groups).

To determine to what extent the present competences and assets are sufficient (at the level of organisational units) for the realisation of the goals and objectives of the organization the results of phase 2 and phase 3 are crucial.

For the analysis of the fit at the level of employees (groups) the job competency profiles and the personal generic competency profiles can be used. When comparing both profiles an analysis can be made to what extent the present competences are sufficient for the different jobs (tasks) that have to be done in order to realise the goals and objectives.

Furthermore this analysis can provide information about new business opportunities due to several new competences which have not been identified in phase 3.

When the fit appears not optimal, phase 4 leads to the development of competences and/or to acquiring the needed competences (joint ventures, acquisitions, mergers, franchising, etc). When an organization has competences that hardly contributes to the realisation of the organization goals and objectives, this can lead to the selling business units and/or outplacement of employees (groups). In short, in phase 4 the 'stock' of competences is managed.

For the phases 2, 3 and 4 the term 'competence management' can be used. In this case competence management is seen as the process of managing the competences by means of planning, execution and evaluating the development and employment of competences.

Furthermore with competence management the risk exist of considering employees as objects instead of subjects. As soon as this happens, employees are considered as objects, and that can be never the intention of competence management.

Phase 5 - Competence-based training and development

When managing competence it is all about managing the competences at the level of organisational units and employees, whereas competence-based training and development is aimed at training and development (improve and acquire competences) of competences on personal level. In other words, the primary aim of competence development is increasing the fit between current and the needed (desired) competences of employees. Development means both improving existing competence (to a higher competence level by increasing skills, knowledge and improving attitudes) and 'renewing' competences (acquiring new competences).

Competence-based training and development exist of different components, which jointly can be described as 'competence-based development activities'. The competence-based activities can be designed in a strategic development plan (SDP) and personal development plan (PDP).

With a SDP the organization creates a plan for increasing the fit between the current and desired competence at the level of employees (groups). In this way competence-based training and development is placed in the perspective of the future tasks of the organization in general, and in particular of employees (groups).

Rabobank⁷

Banks were on the basis of new legislation in 2003, obliged to train employees for a new law Mot-Wif. At the Rabobank this training concerned about 12,000 employees who had to be certified in a very short period. This meant that an extremely flexible training activity had to be realised. As a solution the content of the new legislation was transferred into an online learning environment (e-learning). By means of login codes, e-training, e-tests and an online examination 12,000 employees developed the necessary competences (at home and/or at the work) within a year.

In the above example the training requirements and the general objectives have been appointed in the SPD, in order to manage the competence development of the 12.000 employees. When developing a SDP the following questions can be used as guidelines:

- how can the learning capacity of the organization be increased?;
- to which strategic objective contributes the competence development?;
- how the training efforts and training participation are measured within the organization?;
- how are the learning processes stimulated?

The PDP is used for managing the competence development at employee level. A PDP can be made for each employee and can be used in consistency with other HRM instruments. For example the progress of the competence development of an employee can be discussed during the performance appraisal.

An important aspect of competence development is the result of the learning process. The learning process is defined here as: *the process in which the employee becomes aware of its own competences and gathers and processes information to improve existing competences and acquire new competences on a systematic and structured way, which results in effective work behaviour*.

In general the result of the learning process is hardly manageable. In principle the employee is responsible for the result of the learning process, but it is the role of the organization to stimulate and support the learning process as much as possible. This can be done by creating a context in which learning is directly connected to daily work. In the above example of the Rabobank the learning process of the employees was supported and stimulated by creating an online learning environment which was available for all employees from their own desk.

For this reason competence development is more about influencing the context of learning and the learning process by applying several effective assets and instruments instead of managing the learning process. Recent studies showed that the context of learning plays a significant role in the result of the learning process. So, by creating an effective learning context for the employees the results of the learning processes improve largely.

Phase 6 - Determine effective work behaviour based on the formulated objectives

Competence-based training and development of employees (groups) must lead explicitly to effective work behaviour. Before a performance appraisal (phase 7) is applied the degree of effective work behaviour must be determined. The determination of to what extent an employee showed effective work behaviour must be based on the formulated objectives.

So phase 6 is all about in what way (work behaviour) employees (groups) performed their task in order to realise the objectives. Phase 6 is important, since competences are assessed on the basis behavioural criteria. However, competences are not the same as behaviour. It is the capacity to activate certain work behaviour that leads to the realisation of the intended results.

When employees (groups) regularly receive feedback concerning the effectiveness of their work behaviour and are stimulated to develop feedback seeking behaviour, it will influence the performances in positively.

A concept to determine the effectiveness of work behaviour is the STAR-interview. STAR-interview is a method to get as much as possible information about the work behaviour. The characters of STAR stand for four components. These four components are:

S = situation (the circumstances in which the employee carried out the task);

T = task (the task which the employee carried out);

A = action (all activities which the employee has undertaken to carry out the task);

R = result (the result of the undertaken action).

In the diagram mentioned below (diagram 4) each component is clarified with a number of questions. These questions can be used when applying a STAR-interview.

Situation	Task
<ul style="list-style-type: none">▪ what was the situation?▪ where was the employee?▪ who was there also?▪ what happened earlier on?▪ is the objective clear to the employee?	<ul style="list-style-type: none">▪ what objective had to be realized?▪ what was expected of the employee?▪ what different task had to be accomplished in order to realise the objective?▪ what had the employee supposed to do?
Action	Result
<ul style="list-style-type: none">▪ what actions are executed to realise the objective?▪ what was the role of the employee regarding the actions?▪ how did the employee behave?▪ was the employee aware of the effects of his actions (behaviour)?	<ul style="list-style-type: none">▪ what was the result of the actions?▪ what exactly did the employee do to realise the objectives?▪ to what extent did the employee realised the objectives?▪ where their any obstacles and how did the employee handle the obstacle(s)?

Diagram 4: STAR-interview

It should be clear that a STAR-interview is focused at work behaviour and behavioural criteria. Using one method to determine effective behaviour is in general not sufficient. Other methods such as 360° feedback and peer review can be used to increase the reliability.

Phase 7 - Performance appraisal and competence-based rewarding

At a given moment it must be determined to what extent the employees realised the goals and objectives (effective work behaviour). For this the term 'performance appraisal' is used. Performance appraisals are primarily focused at assessing the performance (behaviour and results) of employees (groups).

Assessing behaviour and results must be brought in line with the goals and objectives of the organization. The reason for this is that this way managing the future performance, promotions and the aspirations of employees can be improved. It is important that not only the current competences of employees are clear to the organization. Also the potential skills and ambitions and career possibilities should be clear. This information is useful because organizations and their objectives change overtime as well as the needed competences.

Performance appraisals can be divided roughly in three categories:

- appraisals which are aimed at taking measurements in employee benefits (competence-based rewarding, allowances, salary increase, etcetera);
- appraisals which are aimed at accompanying people in their work (competence development, feedback, coaching, detection of learning questions, etcetera);
- appraisals which are aimed at determining the different competence levels distinguished in personal generic competences and role-specific competences (competence-based rewarding).

In the first category the performance of employees is assessed explicitly. The communication concerning the appraisal of performance takes place in a performance appraisal meeting.

In the second category work behaviour and the effectiveness of it is assessed. The communication concerning work behaviour takes place in a performance development meeting.

With respect to the third category it can be noticed that these appraisals are ideally incorporated in a performance development meeting. On the basis of the outcomes of both the performance appraisal meeting and of the performance development meeting the organizations can reward employees for the competences the employees applies.

Competence-based rewarding

Competence-based rewarding is about rewarding the employees specifically for the competences which they developed in the past and are applied in their current job in order to realise the given objectives. Competence-based rewarding is thus based on the level of performance (to what extent the given objectives are realised). For competence-based rewarding a system can be used that exists of three components:

- contract component;
- competence component;
- bonus component.

The *contract component* refers to the contractual agreements which are made between the employee and the organization. This component is static and forms the basis for rewarding the role which the employee carries out. The contract component exists in general of a fixed amount for primary benefits and a fixed amount for secondary benefits.

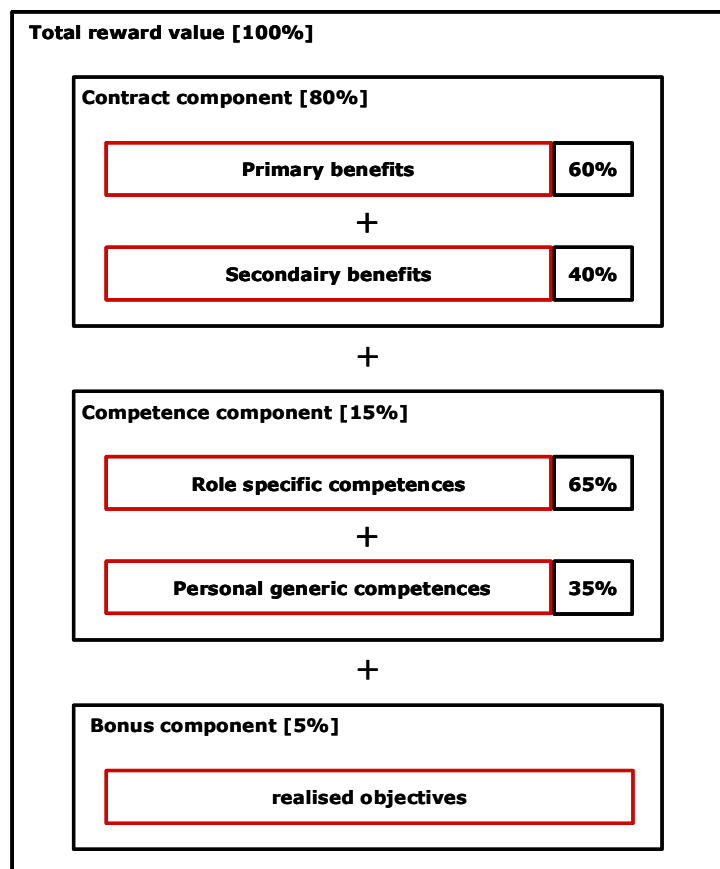
The level of this reward is normally based on the job profile. For the primary benefits the use of a salary scale is common. Also a fixed amount of holidays is a primary benefit. Examples for secondary benefits are a company car, a laptop, a mobile phone and so on.

The *competence component* is all about rewarding the personal generic and role-specific competences of employees. This component forms the basis for rewarding the application of the competences. This component stimulates the development of competences as well.

The third component is the *bonus component*. The bonus is directly related to what extent the objectives have been realised. The determination of the bonus can be done at individual level or on group level. When applying the bonus component for example the following concept can be used:

- objectives not realised: 50% benefit;
- objectives realised: 100% benefit;
- exceeded objectives: 100% benefit + share in company profit.

These three components form the complete competence-based reward system and is shown below in character 5.



Character 5: system for competence-based rewarding

The total reward value is 100% and this stands right for the total amount that is available for the specific job. The reward value is expressed in euro's but can also be expressed in the form of for example a company car, education and social security benefits.

Furthermore organizations must consider how the total reward value is divided in the three components. Recommended is that the competence - and bonus component are less important at the beginning than the contract component. For example 80% of the reward value is fixed (contract component) and 20% of the reward value is variable (competence - and bonus component).

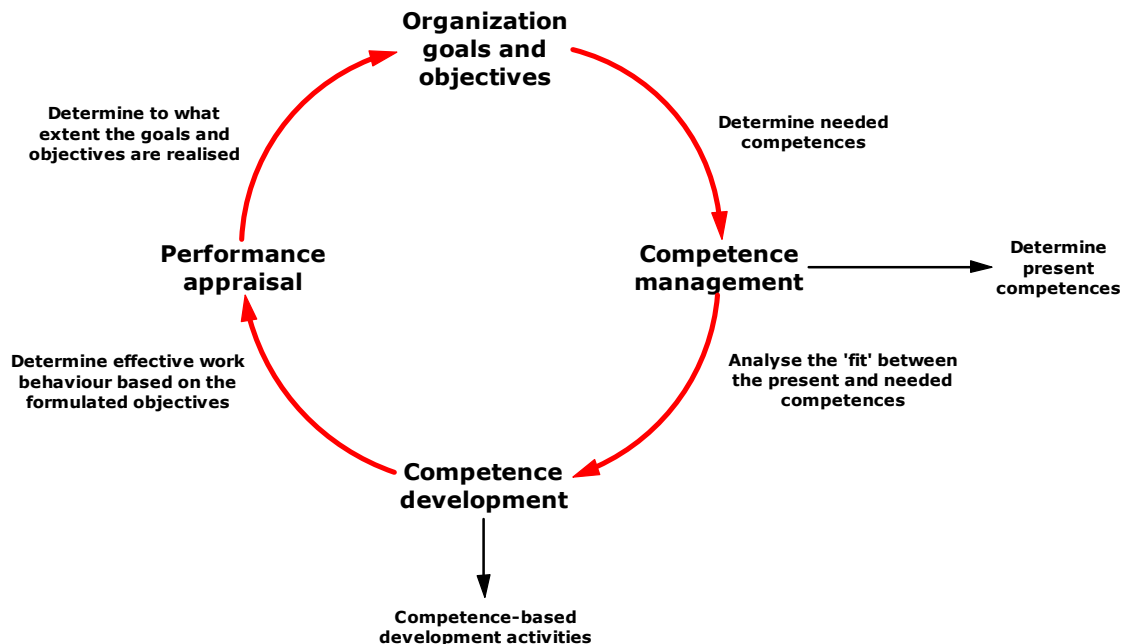
Competence-based rewarding is not without risks, since competence-based rewarding is paradoxical. The concept is focused both on the long term and short term and between both terms several different interests exist. Furthermore setting-up of a competence-based reward system demands a surrounding in which working with competences is a familiar phenomenon. Even when employees are already assessed on the basis of the role-specific competences and personal generic competences, the step to competence-based rewarding is still a delicate one.

To anticipate to this it is possible to introduce a competence-based reward system, and agree with the employees that the actual rewarding in the first two years no negative effects has. This way both management and the employees are able to learn how to handle competence-based rewarding system.

To conclude it can be noticed that rewarding the competences of employees contributes to the performance orientation of employees. However, it is very important that a competence-based reward system is transparent of nature. Also the varieties in total reward value at job level should not diverge too much and also the total cost of labour must be related to the maximum total reward value.

Phase 8 - Determine to what extent the organization goals and objectives are realised

The determination to what extent the organization goals and objective are realised is based of the realisation of the objectives of employees (groups). Based on the result of phase 8 new organization goals and objectives can be formulated and basically the process described above is repeated. The process of 'strategic working with competences' has thus a cyclic character, in which the central issues are: 'organization goals and objectives', 'competence management', 'competence development' and 'performance appraisal' (see character 6).



Character 6: conceptual framework 'strategic working with competences'

Character 6 can be seen as the conceptual framework for applying 'strategic working with competences'. This framework should be adjusted to the specific needs of the organization. No organization is comparable so the application of 'strategic working with competences' is also organization-specific.

Conclusion

There are no certainties in business, only opportunities. The strategic application of the competence-based management offers many opportunities for organizations. Exploiting these opportunities means also that organizations are confronted with new management challenges.

One of the important issues is that management realises that particularly the speed in which competences are exploited and developed and the costs which are involved are vital in realizing competitive advantage.

Furthermore there is a significant chance that not all members of the management team have the same capacity to develop the system of resources for managing their organization goals and objectives. This is one of the reasons why it is extremely important that the management team reaches (in a common learning process) consensus concerning the answers on the three questions which are at stake in the competence-based organization. Only this way management can reach an integrated system of resources where pieces of the puzzle eventually fit. The construction of this system is necessary to realise competitive advantage in a systematic and structural way.

Below several important issues are mentioned which management can take into account when applying strategic working with competences.

- Define very clear how the organization defines competences and outline clearly what the organization wants to realise with strategic working with competences.
- Strategic working with competence demands a culture in which high performance and cooperation is common. All management of the organization must support strategic working with competences and especially themselves.
- When introducing strategic working with competences the short term and long term consequences for the employee must be determined. Strategic working with competences should be discussed in order to arouse the correct expectations.
- Introducing strategic working with competences must be combined with loads of useful communication about the reasons and objectives of strategic working with competences. This also counts for the development process and implementation process.
- Use systems for managing competences, competence development and competence-based rewarding in a pragmatic and functional manner and try prevent bureaucracy.
- Use several applications to support strategic working with competences. There are already several applications available with which competences can be determined and described (i.e. www.skillssoft.com or www.executrack.com).

To conclude it can be noticed that the value of 'strategic working with competences' mainly lies in the structured and systematically application of it and in the speed which this is done. It is a huge challenge for the management to apply the theory of competence-based strategic management and to coordinate and commit all the resources for respectively the realization of the organizations goals and objectives and the creation and distribution of customer value.

If management shows that they are capable of doing so – in a structured and systematically way - the organization can increase the chance to realise competitive advantage in a very effective way. Again, there is no security in business, only opportunities and about one thing we probably can agree on as well: the future belongs to the competent.

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Notes

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² The theory of competence-based strategic management is an integrative strategy theory that incorporates economic, organizational and behavioural concerns in a framework that is **dynamic, systemic, cognitive** and **holistic** (Sanchez and Heene, 2004). This theory defines competence as: the ability to sustain the coordinated deployment of resources in ways that helps an organization achieve its goals (creating and distributing value to customers and stakeholders).

Though simple, this definition embodies essential aspects of the "four cornerstones" of the theory of competence-based strategic management, which aspires to recognize and capture the dynamic, systemic, cognitive and holistic nature of organizational competences. Each of these four aspects of the nature of the competent organization deserves further comment.

First, competence must include the ability to respond to the **dynamic** nature of an organization's external environment and of its own internal processes. The requirement of sustainability in the above definition of competence encompasses both forms of dynamics. To be sustainable, a competence must respond to the dynamics of the external environment by enabling an organization to maintain its ability to create value in the marketplace even as changes take place in market preferences and available technologies. Sustainability also requires overcoming internal organizational dynamics that result in various forms of organizational entropy, such as a gradual loss of organizational focus, a narrowing and increasing rigidity in the patterns of activity the organization can or does perform, a progressive lowering of organizational expectations for performance and success, and the like. The notion of organizational entropy reflects the concept of entropy in the laws of thermodynamics. The essential feature of the law of entropy is that systems naturally tend to devolve to lower states of energy, which takes the form of a loss of structure and information content. Ongoing inputs of energy are required simply to maintain a system in its current state of structure and information. Further inputs of energy are then required to increase the structure and information content of a system. Analogously, in organizations as systems, managers must provide continuous inputs of energy and attention to maintain or improve the order and structure in an organization's value-creation processes.

Second, competence must include an ability to manage the **systemic** nature of organizations and of their interactions with other organizations. The requirement of coordination of resources addresses this dimension of competence. In the first instance, competence requires an ability to coordinate an organization's own organization-specific resources - i.e., the resources within the boundaries of the organization and thus under its direct control - in processes of creating value through product creation and realization. In addition, competence involves accessing and coordinating important organization-addressable resources that lie beyond the boundaries of the organization. Providers of key organization-addressable resources include materials and components suppliers, distributors, consultants, financial institutions and customers.

Third, competence must include an ability to manage the **cognitive** processes of an organization. The requirement of deployment of resources - directing organizational resources to specific value-creating activities - addresses this dimension of competence. Organization's managers are ultimately responsible for deciding the ways in which a organization will try to create value in its targeted product markets. Thus, achieving organizational competence poses a twofold cognitive challenge to managers. Managers must be able to ascertain and assure that a organization's operations meet at least the minimum efficiency requirements needed to carry out the strategies of the organization, but they must also be able to define and select strategies that have the potential to create value in targeted markets when they are carried out efficiently. In other words, managers are responsible for both efficient and effective use of an organization's resources.

Fourth, competence must include the ability to manage the **holistic** nature of an organization as an open system. The requirement of goal achievement addresses the multiplicity of individual and institutional interests that intermingle in and are served through any organization. To lead an organization in achieving goals requires that managers be able to define organizational goals that promise a satisfactory level of goal achievement for all individual and institutional providers of the essential resources the organization needs. Thus, the definition of organizational competence recognizes the existence of multiple stakeholders and the importance of meeting the expectations of all providers of essential resources in sustaining the value-creating processes of an organization.

³ Douwe Egberts (www.douweegbertscoffeesystems.com) is a brand of Sara Lee (www.saralee.com). Sara Lee Corporation is a global manufacturer and marketer of high-quality, brand-name products for consumers throughout the world.

⁴ The *Starbucks Experience* is built on three primary components: products, places and people (partners). Customers come for coffee, stay for the inviting warmth and return for the very human connection. Starbucks partners provide legendary service and enrich people's daily lives: by being welcoming, genuine, considerate, knowledgeable and involved, by fostering an entrepreneurial spirit through accountability, feedback and ownership.

⁵ Starbucks Hear Music™ Coffeeshouses offer a new way for customers to discover and buy music, both physically, through an extensive physical CD inventory, and digitally, through our Starbucks Hear Music™ media bars. They provide a personal music experience for our customers through hand-picked inventory by the Starbucks Entertainment content team to reflect local and regional preferences.

Starbucks Hear Music™ Media Bars offer more than one million digital tracks to sample and burn. They provide the opportunity to both listen to sample music and create and burn custom CDs or an album in minutes.

The Starbucks Entertainment music catalog is available on the iTunes Store (www.iTunes.com), giving iTunes users the ability to preview, buy and download a wide variety of popular Starbucks Entertainment titles. The Starbucks Entertainment area within iTunes features playlists hand-picked by the same Starbucks Entertainment content team responsible for selecting the music played in Starbucks stores around the world.

In October 2007 Apple and Starbucks started an exclusive relationship that lets customers wirelessly browse, search for, preview, buy and download music from the iTunes Wi-Fi Music Store onto their iPod® touch, iPhone™, PC or Mac® running iTunes while at participating Starbucks locations.

⁶ Albert Heijn pioneered the development of the supermarket in The Netherlands. The company operates stores in a number of formats: the everyday supermarket, the larger Albert Heijn XL for the weekly groceries, the convenience stores Ah to go and the internet delivery service Albert.nl. Almost 200 of the Albert Heijn are run by franchisees. Albert Heijn is owned by Ahold NV (www.ahold.com).

⁷ Rabobank Group is a full-range financial services provider founded on cooperative principles and is a global leader in sustainability-oriented banking. The Rabobank Group has the highest credit rating (AAA), awarded by the well-known international rating agencies Moody's and Standard & Poor's. In terms of Tier 1 Capital, the organization is among the world's fifteen largest financial institutions (www.rabobank.com).