The Role of Competencies in Driving Financial Performance

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Executive Summary

How do high-performing organizations manage their talent? This research studies the growing and important role that corporate competencies[1] play in performance management. As more and more organizations standardize and automate employee performance management, the use of standard competencies is also increasing.

ANALYSIS

High-performance organizations value competencies that **build organizational capabilities** – while **lower-performing organizations** focus on competencies that **build individual capabilities.**

How do organizations use competencies and, more interestingly, which competencies drive higher business results? Do they make a difference at all? These are important questions for executives, line managers and HR practitioners.

Through an agreement with SuccessFactors, the fastest-growing provider of performance and talent management systems, we analyzed the use of competencies in high-profit and high-growth companies in four industries:

- Financial Services;
- High Technology;
- Industrial Manufacturing; and,
- Retail.

We found that competency-based performance management varies widely by industry, market maturity and phase of growth. Growth-oriented organizations focus on strategic competencies to drive leadership behavior, while organizations in lower-growth markets focus on general management behaviors. High-performance organizations value competencies that build organizational capabilities, while lower-performing organizations focus on competencies that build individual capabilities.

Organizations that are automating, revamping or revising their performance management processes should consider this research carefully. A focus on the right competencies for your particular organization will impact business performance, retention, employee engagement, resilience and profitability.

1 A "competency" is a measurable characteristic of a person that is related to success at work. It may be a behavioral skill, a technical skill, an attribute (such as intelligence) or an attitude (such as optimism)." *The Leadership Machine: Architecture to Develop Leaders for Any Future*, Michael M. Lombardo, Ed.D. and Robert W. Eichinger, Ph.D., Lominger Limited, Inc., 2001.

Introduction: The Growth in Automated Performance Management

KEY POINT

More than 45 percent of HR managers rate **"improvement of their performance management processes"** as one of their top two areas of focus.

KEY POINT

One-third of organizations have a consistent enterprisewide process for performance management – and nearly 40 percent have no formal standards at all.

Performance management has become one of the biggest new investments in HR organizations today. Our 2006 research found that more than 45 percent of HR managers rate "improvement of their performance management processes" as one of their top two areas of focus.

Performance management – the process of managing, coaching, developing and evaluating employees – **is one of the most pivotal processes in a successful organization.** If done well, it creates alignment, engagement and focus on results. If done poorly, organizations may suffer from high turnover, lack of engagement and a misaligned workforce.

The concepts and principles of performance management are not new. For more than two decades, organizations have understood the importance of:

- **Giving** people clear **objectives**;
- **Measuring** their **achievements**;
- **Delivering** honest and unbiased **feedback**;
- **Rating and ranking** employees **against standards**; and,
- **Tying compensation** to performance **reviews**.

What is new, however, is the tremendous growth in the adoption of tools to automate, streamline and standardize the performance management process. While most managers use some process to manage and assess their employees, today only one-third of organizations have a consistent enterprisewide process for performance management and nearly 40 percent have no formal standards at all[2].

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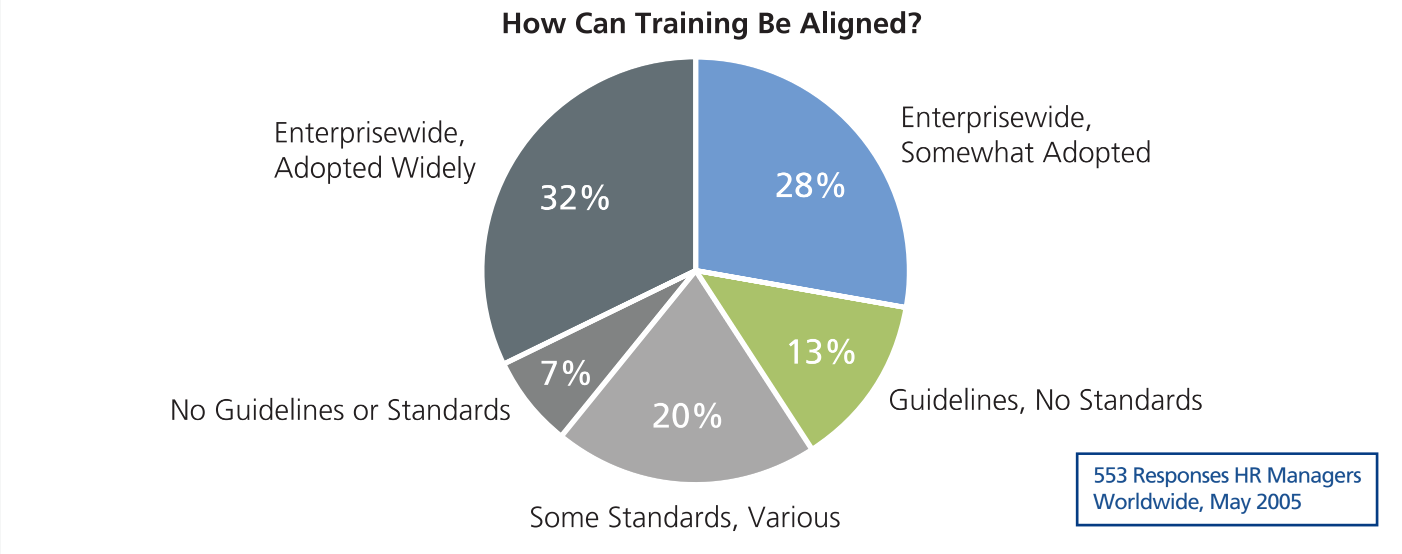
2 For more information, *Performance Management 2006 Comprehensive Industry Study: Market Analysis, Trends, Best Practices, and Vendors Profiles*, Bersin & Associates / Josh Bersin, June 2006. Available to research members at www.elearningresearch.com or for purchase at www.bersin.com/perfmgt.

Figure 1: Adoption Rate of Performance Management Processes



Source: *Bersin & Associates, 2006.*[3]

Case in Point: An Example

We recently met with the senior vice president of HR for one of the world's largest oil companies. The CEO believed that they had been using the same worldwide process for the last five years.

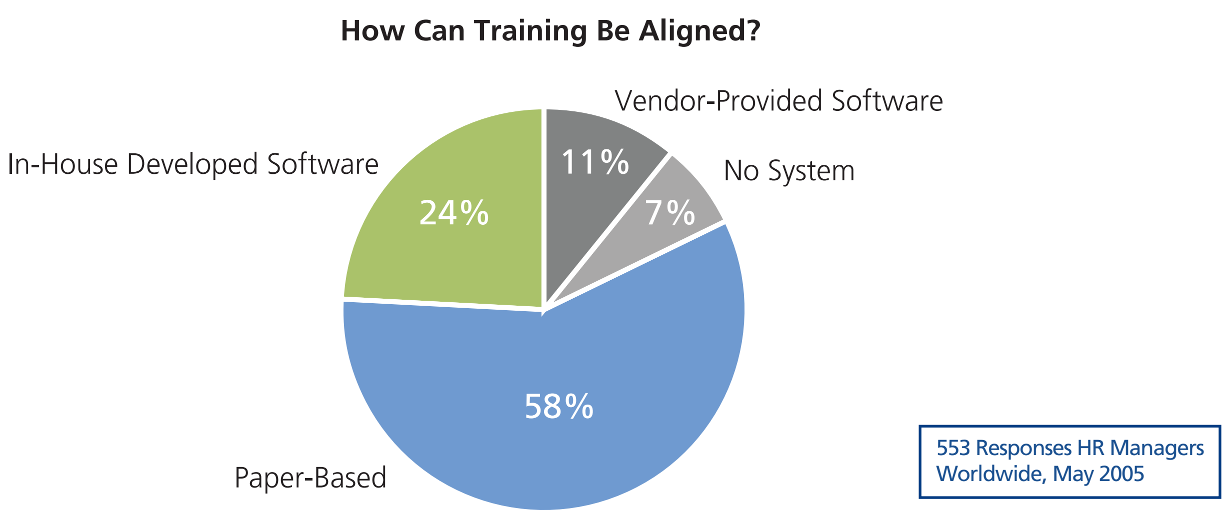
When this senior vice president of HR surveyed the organization, however, he found at least six completely different ways in which parts of the organization were managing, assessing, developing and compensating people. Once he understood this, he embarked on an 18-month effort to develop a standard process and automate it.

Even organizations that already have enterprisewide processes are now revamping them. Our research finds that almost 60 percent of organizations use a paper-based approach – consisting usually of an annual performance appraisal, which is filled in and sent to HR for filing.

3 For more information, *Performance Management 2006 Comprehensive Industry Study: Market Analysis, Trends, Best Practices, and Vendors Profiles*, Bersin & Associates / Josh Bersin, June 2006.

Only 11 percent of organizations have a vendor-provided solution for automation – and 24 percent have a home-grown system. Today, with the advent of highly automated tools for performance management, most organizations are looking to replace these ad-hoc systems with an enterprise-class software solution.

Figure 2: Penetration of Software-Based Performance Management Systems



Source: *Bersin & Associates, 2006.*[4]

The Growing Role of Competencies in Performance Management

KEY POINT

Almost 60 percent of organizations use a paper-based approach to annual performance reviews, which are filled in and then sent to HR for filing.

As more and more organizations work to streamline and automate this process, they find several important changes take place.

First, they realize that the tool itself **forces the organization to create well-understood rules about how performance ratings will be computed.** For example, most organizations agree that a performance rating (typically a one-to-five scale or similar) is made up of two components:

- **Performance:** The employee's **attainment**[5] of certain previously assigned goals. One could consider this the "what" – what did this employee accomplish?

4 For more information, *Performance Management 2006 Comprehensive Industry Study: Market Analysis, Trends, Best Practices, and Vendors Profiles*, Bersin & Associates / Josh Bersin, June 2006.

5 "Attainment" refers to the measurement of how well the employee has completed specific job goals, e.g., finalized a project, achieved a sales revenue objective, etc.

- **Capabilities:** The employee's **level of competency** with various values and skills that enables the achievement of these goals. These capabilities are considered the "how" – how did the employee accomplish these goals?

KEY POINT

Most organizations realize that **"goal achievement at any cost"** is not a long-term strategy for organizational health.

The first component, **performance**, is fairly easy to define and measure. Goals are defined once per year; they often have specific **clearly defined measures** (e.g., "sell $1,000 of product A" or "complete the design of the new website by June 30"); and, their **attainment is easy to measure.** One can compute the percent attainment of each goal, give each goal a weight and come up with a rating.

The second component, **capabilities**, is much more complex. In most organizations, the capabilities or "competency" dimension[6] is used for many things; often, it is an element of the employee's rating (some purists would argue that it should not be used for this because it blurs the definition of pure performance). As a component of an employee's performance rating, it is usually given a fixed weighting, typically lower than the weighting given to goal achievement.

ANALYSIS

The **competency assessment** process is essential to the process of building an employee's development plan.

But, more importantly, the **capabilities or competency part** of a performance plan defines an employee's **"methods of achieving results,"** his / her **"fit with the company"** and **"potential" to be promoted** to more demanding assignments. An employee who meets all his / her goals, for example, but demonstrates none of the company's key competencies or behaviors, is often given a low-performance rating and sometimes asked to leave. Most organizations realize that "goal achievement at any cost" is not a long-term strategy for organizational health. People must develop and display certain competencies in order to be considered successful.

The competency assessment process is essential to the process of building an employee's development plan. One of the critical elements of performance management is coaching people to develop the skills, which are holding them back. **This development planning process is tied to an assessment of an individual's skills gaps – and these gaps must be assessed against specific competencies**, which the organization believes are valuable.

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6 Descriptive information about the audience or program is often called "dimensional" information in an analytics system. For more information, *High-Impact Learning Measurement: Best Practices, Models, and Business-Driven Solutions for the Measurement and Evaluation of Corporate Training*, Bersin & Associates / Josh Bersin, November 2006. Available to research members at www.elearningresearch.com or for purchase at www.bersin.com/measurement.

Figure 3: The Role of Goals Versus Competencies in Performance Management

Primary Elements of the Performance Rating	Process for Setting	Assessed	Value to Employee	Value to Organization
Achievement of Goals	Easy to define, typically defined once or twice per year.	Through achievement of actual results, which are often objective and easy to measure.	Gives a clear "report card" on results, which the employee can use to measure his / her success.	Gives the organization a clear way to rate, rank and compensate high-performance versus lower-performance employees.
Assessment of Competencies	General competencies are typically defined at a global level, using values or leadership traits. Job-specific competencies are typically defined at a manager, workgroup or functional level.	Through manager assessment, self-assessment and 360-degree assessment. Sometimes also assessed through unbiased tests and other tools.	Gives the employee a sense of how he / she can perform at a higher level, and what skills and competencies he / she should work to develop.	Gives the organization a sense of this person's fit within the company, his / her potential for promotion and a clear understanding of which competencies actually result in higher performance.

Source: *Bersin & Associates, 2006.*

As Figure 3 shows, competencies make up an important but often confusing part of performance management.

Most organizations use these two dimensions to develop "succession planning matrices" or other forms of employee comparison charts, sometimes called the "nine-box grid." (See Figure 4.)

Figure 4: Example of a Nine-Grid Box

	Level of Performance (Goal Attainment)		
Level of Potential (Competencies)	May Be Coachable	Potential Star	Superstar HIPO (high-performance, high-potential)
	Not Coachable	Maintain	Coach and Develop (potential HIPO)
	Terminate (poor performer and poor fit)	Terminate or Coach	Coach or Terminate (potential HIPO or poor fit)

Source: *Bersin & Associates, 2006.*

Many organizations plot their employees on such grids to determine who the HIPOs[7] are. Such a two-dimensional assessment is very valuable in the determination of who the future leaders of the organization should be.

ANALYSIS

A **two-dimensional assessment** (such as the nine-grid box) is very valuable in the determination of who the future leaders of the organization should be.

Another valuable result of competency definition and assessment is that it forces the organization to think hard about **what competencies the company values and which of these competencies actually drive results.** Every company has its own culture. In a fast-growing company, like Amazon.com, an important success-competency is innovation. Line managers and employees are expected to think about new ways of solving problems. As the company has been growing at more than 100 percent per year for many years, such problem-solving is an everyday occurrence in almost every business function.

More mature, slower-growing companies, like Sealed Air Corporation (one of the largest manufacturers of bubble wrap and other packaging products), focus on competencies, such as "giving back to the community." This organization fosters programs to build hospitals in third-world countries and contributes to pro-environmental causes. Such a value or competency grew out of the company's history: the company makes large amounts of plastics and felt that giving back to the community was an important part of its corporate responsibility.

WhatWorks® in the Use of Competencies for Performance Management?

As this discussion points out, while the goal-setting part of performance management is relatively easy to define and implement, the competency part is far more complex, subjective and broad in its use. Let us examine three types of competencies used in performance management: values-based competencies, leadership competencies and functional competencies.

Values-Based Competencies (Core)

Many organizations choose to develop a small set of **"core competencies,"** which are developed and approved by top management. At PepsiCo (PBNA), for example, global competencies include performance-orientation and teamwork. These competencies take the

7 "HIPOs" are high-potential employees identified by a company for potential upper leadership roles within the organization.

form of values or behaviors, which can be applied to any person in any job. They represent the company's "inner core" and often do not change much from year to year (even decade to decade). When a major change occurs (e.g., a new management team, a major business challenge, a legal or regulatory upheaval), the competencies may be amended. When a company is caught in ethics violations, for example, the competencies of "integrity" may be added.

These core, values-based competencies are often designed personally by the CEO and a handful of top executives. They define **"the type of company we want to be"** – reflecting the type of people and behaviors, which are valued. These values-based competencies are applied to every performance appraisal in the company; they are usually posted throughout the workplace, given to employees in wallet cards, emblazoned on mugs and awards, and promoted at company meetings.

Leadership Competencies

Leadership competencies are those which are used to **assess an individual's ability and skills to be a leader or manager.** Most organizations have a separate set of competencies that are used for this purpose – and they are only applied to people with a certain level or certain potential.

At GE, for example, the four leadership competencies are:

- *Execution* (results);
- *Energy* (passion and hard work);
- *Energize* (ability to inspire others); and,
- *Edge* (ability to make tough decisions).

Most companies have capabilities, such as **"strategic decision-making"** or **"communication"** as leadership competencies. While these words may seem very generic and uninteresting, they reflect each organization's unique belief system about what type of people should be leading the organization. These competencies reflect the organization's unique assessment of **what leadership qualities actually "work" in the company's culture.**

Functional Competencies

The third form of competencies used in performance management is functional competencies (those that pertain to a particular job function), which are rarely defined at an enterprise level. In the IT department, for example, a competency may be "project management." In the sales organization, a competency may be "solution development." Such **functional competencies often take the form of specific skills** (e.g., "database administration") and are best managed at a workgroup or functional level.

Competency Development Is Difficult and Often Ignored

KEY POINT

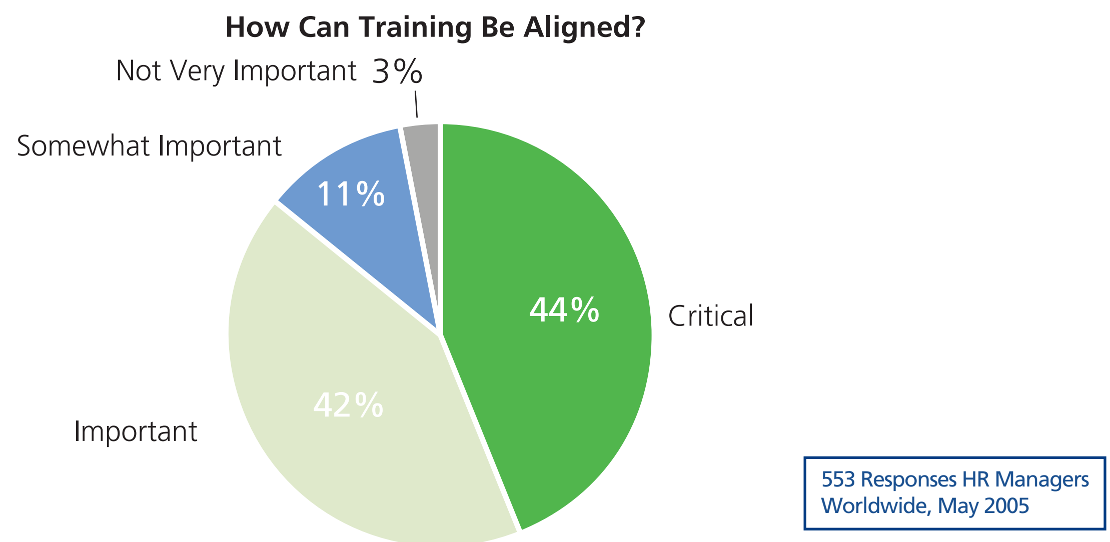
Eighty-six percent of HR managers believe that **competency management is critical** to their **success** in performance management.

Some business-centric HR managers believe that competency development is a waste of time. They argue that "results are what matter" and we should not care about how we get these results. Despite this assumption, our research finds that most HR managers and executives actually take this process very seriously.

Our research found that 86 percent of HR managers believe that competency management is critical to their success in performance management.

Unfortunately, they find it difficult to do well. Only 15 percent believe their competencies are well-defined at an enterprisewide level, and fully 45 percent feel that important competencies are either spotty or nonexistent.

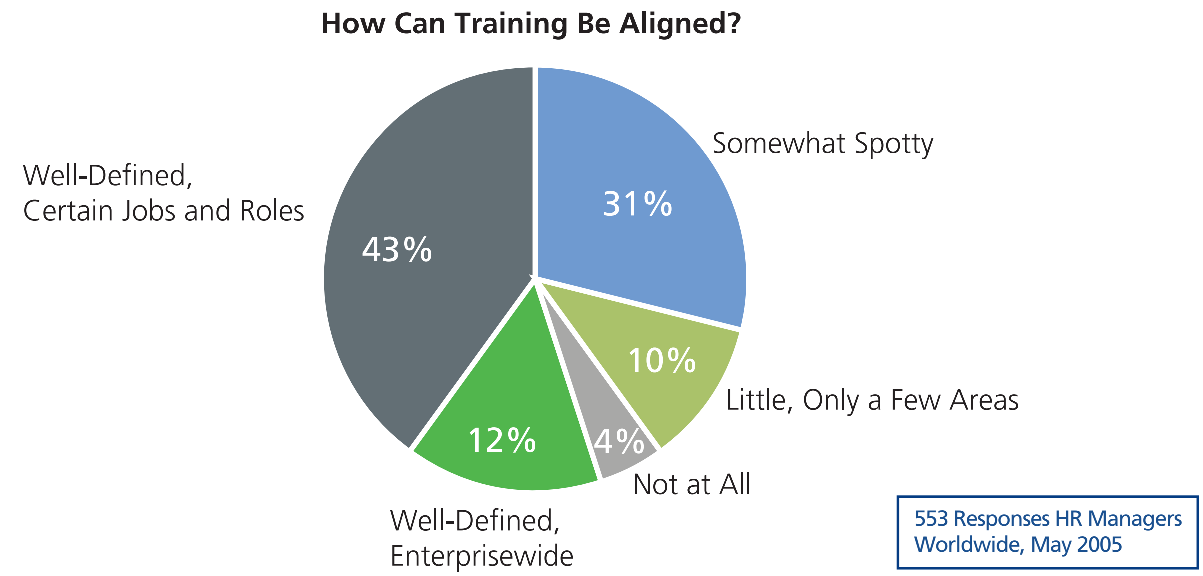
Figure 5: The Importance of Competency Management to Performance Management



Source: *Bersin & Associates, 2006.*[8]

[8] For more information, *Performance Management 2006 Comprehensive Industry Study: Market Analysis, Trends, Best Practices, and Vendors Profiles*, Bersin & Associates / Josh Bersin, June 2006.

Figure 6: How Well Are Skills and Competencies Defined?



Source: *Bersin & Associates, 2006.*[9]

This paradox is easy to explain: the process of developing a high-value set of core competencies for a given organization is not easy. It requires:

- The priority of the senior leadership team;
- Iteration over time;
- Collaboration between multiple business executives; and,
- A set of internal processes that allow the organization to update, evolve and change these core competencies over time.

In best-practice organizations, a small set of core leadership and values-based competencies are established across the organization. These competencies (typically fewer than 10 in number) are broadly applied to all employees in the organization to understand their readiness for greater responsibility, their alignment with organizational culture and behaviors, and their potential to be promoted into senior management.

[9] For more information, *Performance Management 2006 Comprehensive Industry Study: Market Analysis, Trends, Best Practices, and Vendors Profiles*, Bersin & Associates / Josh Bersin, June 2006.

Which Competencies Matter? Our Research

In 2005 and 2006, we worked with SuccessFactors, a fast-growing provider of performance and talent management software solutions, to identify what elements of performance management drive greater business results. In this case, we studied one pivotal element: **the use of competencies.** We set out to understand what competencies drive high-growth and high-profit organizations – and, by reverse, which focus on competencies that may, in fact, be correlated to low growth and low profitability.

ANALYSIS

"Best-practice" competencies vary by industry and organizational maturity.

While we cannot determine whether competencies, in fact, cause business results or are an impact of business results, we know now that a correlation exists. The information from this report will be highly valuable to organizations in planning and implementing their management processes. If you want to be a high-growth company in your industry but you are managing by the process of low-growth companies, you may want to consider a change.

One might imagine that most organizations would develop similar competencies for success. After all, what works in one profit-seeking organization should work similarly in another, right?

No. Our research has found otherwise. It turns out that "best-practice" competencies vary by industry and organizational maturity.

Our Methodology

SuccessFactors has several million performance appraisals and competency models from a wide range of global corporations. The company looked at the use of competencies among 28 of these large organizations in more than 300,000 performance appraisals using 1.389 million competencies in four specific industries. We then sought to look at the relative financial performance of each of these companies and compared their use of competencies to find patterns.

To make sure that we were comparing companies with similar maturity in their performance management processes, we selected organizations, which had the following characteristics:

- They had been using SuccessFactors for at least 12 months;
- All different competencies were translated into SuccessFactors 51 standardized competencies (included with SuccessFactors);

Figure 7: Competency Usage by Industry

	Number of Companies	Number of Uses of Competencies
Financial Services	5	133,000
High Technology	9	89,000
Industrial Manufacturing	6	789,000
Retail	8	378,000
Total	**28**	**1,389,000**

Source: *SuccessFactors' Customer Data, 2006.*

- They had a significant percentage of their employees using SuccessFactors (50 percent or greater); and,
- They had publicly available financial information.

These 28 companies were grouped into four industry segments:

- Five in financial services;
- Nine in high technology;
- Six in industrial manufacturing; and,
- Eight in retail.

For each of these four industries, we then rated their financial performance as "high performing" or "low performing" against two dimensions: profitability and revenue growth.

Figure 8: Two-Dimensional Analysis of Financial Performance

	High-Performing Organizations	Low-Performing Organizations
Profitability	Return on Equity at least 10 percent higher than the industry average.	Return on Equity at least 10 percent lower than the industry average.
Growth	Growth in Revenue by at least 10 percent higher than industry average.	Growth in Revenue by at least 10 percent lower than the industry average.

Source: *SuccessFactors' Customer Data, 2006.*

For each of the four industry segments, we looked at the aggregate use of competencies in performance management for the "high-performing" companies versus the "low-performing companies." We then looked at the competencies used by 80 percent or more of the performance appraisals – and only listed those, which were in use by 10 percent or more of all performance appraisals.

ANALYSIS

"High-performance" management competencies tend to **vary** not only **by industry** but **by organizational maturity**.

NOTE: In this analysis, we cannot specifically isolate the effect of these competencies on growth or profitability. In fact, to keep this research unbiased by specific company strategies, Bersin & Associates had no knowledge as to the actual companies used in the research study. There are obviously many other factors, which affect a given company's financial success – including its products, market share, size, positioning and years in business. Rather, what we are doing in this analysis is pointing out industry-specific trends – that are clear enough to be used for a general understanding of how competencies are used in management. One of the things you will see is that "high-performance" management competencies tend to vary not only by industry but by organizational maturity. We believe you will find these trends illustrative and actionable[10].

Of course these findings cannot be applied blindly without taking into account your company's very situation (internal and external), as well as your company's strategy and core values[11].

Findings: High-Growth Versus Low-Growth Companies

Figure 9 shows competencies in use by high-growth versus low-growth companies in each of the four industries.

As you can see by analyzing this chart, there are no consistent "high-growth" competencies versus "low-growth" competencies in this data. The critical success factors that we do see are as follows.

10 "'Actionable information' is information that provides data which can be used to make specific business decisions." For more information, *High-Impact Learning Measurement: Best Practices, Models, and Business-Driven Solutions for the Measurement and Evaluation of Corporate Training*, Bersin & Associates / Josh Bersin, November 2006.

11 For more information, please visit: http://www.successfactors.com/research/competency-usage.asp.

Figure 9: Competencies Used by High-Growth Versus Low-Growth Companies

Growth Competencies	Financial Services	High Tech	Industrial Manufacturing	Retail
Higher 12-Month Growth Than Their Competitors	• Quality • Initiative • Communication	• Creativity / Innovation • Job Knowledge • Communication • Customer Focus • Leadership	• Planning • Self Development • Job Knowledge • Teamwork • Quality	• Teamwork • Integrity / Ethics • Work Environment / Safety
Lower 12-Month Growth Than Their Competitors	• Job Knowledge • Customer Focus • Technical Skills • Planning • Decision Making / Judgment	• Problem Solving / Analysis • Dependability • Self Development • Technical Skills • Personal Organization	• Strategic Thinking / Management • Customer Focus • Job Knowledge • Creativity / Innovation • Technical Skills	• Customer Focus • Integrity / Ethics • Technical Skills

Source: *Bersin & Associates, 2006.*

Financial Services

KEY POINT

In the financial services industry, **initiative** is a highly valued competency … individuals must have tremendous initiative **to drive value and change.**

In financial services, an industry which has undergone significant consolidation, high-growth companies focus on quality, initiative and communication. These are **"leadership-level" competencies**, which can be broadly applied across the entire organization. We will see this trend emerge throughout this research: by developing and rewarding leadership skills, **organizations focus on "capabilities" not "execution"** – and encourage employees to "break down barriers," "tear through bureaucracy" and "focus on what matters." In an industry where the products are often associated with money and data, quality is clearly of paramount importance. Initiative is a highly valued competency because these companies tend to be so large: individuals must have tremendous initiative to drive value and change. And we believe communication is a highly valued competency because these organizations tend to be stove-piped into clear and distinct functional business units. Communication breaks down these large barriers, and makes individuals more effective and gives them greater perspective.

ANALYSIS

Because financial services companies tend to be stove-piped into distinct functional business units, **communication breaks down** these large **barriers**, and makes individuals more effective and gives them greater perspective.

Remember that financial services companies tend to be very large (in both assets and number of employees) and a large percentage of their workers are white-collar managers. These first- and second-line managers tend to have very limited spheres of influence (i.e., they may manage a single branch or a single small office). The high-growth companies are using "leadership-like" competencies to coach these employees to break down bureaucracy, focus on the big picture (i.e., quality) and manage like leaders (communicate).

Competencies that tend to favor lower-growth companies are ones, which manage and reward more job-level skills. Two of the top three competencies **(job knowledge and technical skills) are competencies that are "hygiene factors" in performance.** Without job knowledge and technical skills, you cannot deliver your job. Competency in these areas does not help the business grow, however, it may help the business stay where it is.

ANALYSIS

High-growth companies are naturally customer-focused by instinct; **low-growth companies may be "forcing" customer focus** because there is a tendency to be too internally focused by nature.

Interestingly, "customer focus" is a competency, which showed up in low-growth companies. We believe the explanation for this is that high-growth companies are naturally customer-focused. Their products, services and marketing focus on customer needs by instinct. Lower-growth companies may be "forcing" customer focus because there is a tendency to be too internally focused by nature, indicating one of the reasons and attributes to stagnation in the marketplace.

An important point to make here is that competencies in use at lower-performing companies may not be the "cause" of low growth, but rather the "effect." When a company stops growing, there is a tendency to panic and focus on short-term management issues: making employees more productive in their current positions. In the low-growth companies, we believe some of the competencies we find are "symptoms" not "causes."

High Technology

High-technology companies are far different from financial services companies, in that they:

- Tend to have far fewer employees (note that **fewer than seven percent of all the competencies in this study came from high-technology companies);**
- Must live through very short product lifecycles (some as short as six months); and,

- Manage many key technical employees with high levels of education and technical skills **(the competency maps in this industry support this type of workforce).**

ANALYSIS

In fast-growing high-technology companies, **job competency is critical to success.**

High-growth technology companies greatly reward **creativity and innovation.** These companies know that they are currently in the process of "creative destruction" of their own product lines. Again, we see a **focus on leadership skills**: communication and leadership.

One of the interesting competencies, which is well-regarded in high technology, is **"job knowledge."** We believe this indicates the greatly varied, technical and complex nature of many high-value positions in high technology. Engineers, technical managers, support people and high-technology manufacturing employees must have a deep level of understanding of their jobs. Unlike a bank teller who can be trained in a few days, these individuals may take months or years to fully master their jobs. In fast-growing high-technology companies, job competency is critical to success.

ANALYSIS

In high technology, the **keys to success** are innovation, growth and focus.

Lower-growth technology companies again tend to focus on more pragmatic, tactical skills. Problem-solving, which may appear to be a strategic skill, is actually more of a "bar to entry" in a high-technology company. These companies are always solving problems – and we believe such a competency is likely considered a "mandatory" to succeed. Capabilities like "self-development," "dependability" and "personal organization" are **tactical skills, which are unlikely to create competitive advantage.** They may help a company become more profitable and improve quality – but, in high technology, the keys to success are innovation, growth and focus.

One anomaly in this industry is the competency "technical skills," which is attributed to lower-growth companies. Our only explanation is that the high-growth companies probably "hire into" technical skills and consider it a de-facto competency to drive high performance. It is unlikely that a high-performing engineer or support person does not have excellent technical skills. On the other hand, a poorly performing customer service worker who is not customer-focused will not perform better by improving their technical skills. Again, as in financial services, **higher-growth companies are using competencies to build and reward leadership behaviors.**

Industrial Manufacturing

Here we see a different pattern again. These companies have large workforces (789,000, or more than half of our competencies, are in this industry), many of which are in plant-floor operations, logistics, financial, sales and service functions. They work in teams and small workgroups, and are often located far from the corporate headquarters. In this industry, **growth is typically driven by product quality, speedy delivery, competitive pricing, low-cost structure and market-driven features.** Innovation and speed to market is far less important than in high-technology. Low cost, high quality and scalability are far more important.

ANALYSIS

We believe **self-development is highly valued** because manufacturing workers are less highly trained and tend to be less flexible in their skills.

High-growth manufacturers value skills, which deliver on these attributes: **planning, teamwork, quality, job knowledge and self-development.** These are competencies that characterize an excellent manufacturing manager, shopfloor worker or service center manager. We believe self-development is highly valued because these companies have a much harder time moving workers from position to position – manufacturing workers are less highly trained and tend to be less flexible in their skills. Self-development, then, is an important competency that drives flexibility and growth in the organization itself.

Interestingly, in this industry lower-growth companies tend to be focusing on competencies that we regard as "turnaround" competencies. Remember that these competencies may be "symptoms" of trying to turn around a slow-growth company. The **"customer focus"** competency, while highly valuable, may indicate an attempt to change a "broken" organization and get employees to think more about the customer to drive new growth in a slow-growth company (in heavy equipment or automotive industries, for example). Again, **"technical skills"** is a very tactical competency, which we believe does not create high performance or competitive advantage.

Retail

The retail competencies are somewhat counterintuitive. Rather than try to "explain away" the results, let us try to interpret them. Remember that retailers have large pools of employees with very low skills, high turnover and often low levels of seniority. It is not uncommon for retailers to have turnover rates of 100 percent to 150 percent, or higher. They suffer from high levels of loss (theft), personal behavioral difficulties on the job, and the need to comply with strict regulations for safety, food handling, equipment handling, etc. Most retailers (e.g., food service, groceries, home improvement, electronics) have many safety-related challenges in their stores. Employees who do not comply with safety rules will endanger themselves, their peers, their customers and the whole company.

Remembering these factors, it makes sense that the three most widely used competencies are perfectly aligned with this environment. **"Teamwork"** encourages employees to communicate and work together in an environment of high turnover and low levels of seniority. **"Integrity / ethics"** reminds employees that they are stewards of the company – and they must take cash handling, product handling and customer ethics seriously. **Work environment / safety** again indicates a focus on "what really matters" for retail success. Are these three "growth-related" competencies? While they may not appear to be, they indicate that well-run retailers focus on operational excellence. We know from our regular research with companies, like McDonald's, Starbucks, Lowe's Home Improvement and others, that **growth is driven by a consistent, safe and repeatable in-store experience.** Employees are not trained to be creative – they are trained to "deliver customer solutions" through quality processes and procedures.

KEY POINT

Teamwork, integrity / ethics and work environment / safety are three key "growth-related" competencies, which indicate that **well-run retailers focus on operational excellence.**

Competencies in slow-growth retail companies again tend to indicate a focus on solving problems. **"Customer focus" is a "must-have" for any retailer.** When this is part of a performance appraisal, it is a symptom that there is not enough "customer focus" in the organization as a whole. Again, a focus on "technical skills" is tactical and does not clearly define the differentiating characteristics of a retailer.

Findings: High-Profit Versus Low-Profit Companies

In this section, we discuss the competencies employed by high-profit versus low-profit companies in each of the four industries. Remember that here we are typically looking at companies that may or may not have growth at all. Companies with the highest profits in their industry are often not the fastest growing. These are companies that are not necessarily trying to "gain market share" but, rather, contain costs, drive efficiencies, reduce turnover, and tighten operational procedures to reduce waste and inefficiency. In fact, some of the "low-profit" companies may be some of the "high-growth" companies in the previous analysis.

Figure 10: Competencies Used by **High-Profitability Versus Low-Profitability** Companies

Profitability Competencies	Financial Services	High Tech	Industrial Manufacturing	Retail
Higher Return on Equity Than Their Competitors	Not Enough Data	• Job Knowledge • Communication • Customer Focus • Quality • Leadership • Creativity / Innovation	• Job Knowledge • Adaptability / Flexibility • Quality • Interpersonal Skills • Teamwork • People Development	• Personal Organization • Quality • Customer Focus • Dependability
Lower Return on Equity Than Their Competitors	• Communication • Quality • Initiative • Job Knowledge • Planning	• Creativity / Innovation • Problem Solving / Analysis • Self Development • Technical Skills • Dependability • Personal Organization	• Strategic Thinking / Management • Customer Focus • Creativity / Innovation • Technical Skills • Self Development	• Integrity / Ethics • Teamwork • Work Environment / Safety • Customer Focus

Source: *Bersin & Associates, 2006.*

Financial Services

We did not have enough information to analyze high-profit financial services companies. The lower-profitability group, however, tends to manage by competencies that are very similar to the high-growth companies. We believe this is supported by our previous analysis: **driving leadership behaviors will lead to growth.** These companies may be the "up and comers" in this industry, not the "market-share leaders." Several financial services companies, especially those with a retail-banking focus, have grown through acquisitions; naturally, you see that type of growth being correlated with a lag effect before you see the expected synergies hit the bottom line. If you grow aggressively, you can't maintain superior profit levels in parallel.

High Technology

In high technology, profitability is driven by both market-share leadership and process innovation. Most high-technology products are only profitable for the first few years of their life, and they must be continuously refreshed to keep their edge. This demands companies avoid being "one-trick ponies." They must develop sustainable processes for product management, product development and market analysis. These complex processes are driven by high-paid managers and technical specialists who often move from company to company. Only by developing a sustainable management process can profits remain high over a long period of time.

ANALYSIS

"Higher-level" leadership competencies indicate that these companies are **managing for organizational capabilities** – not individual capabilities.

In high technology, we find that **high-profit companies have many of the same competencies as high-growth companies – creativity, job knowledge, communication and customer focus.** These "higher-level" leadership competencies indicate that these companies are managing for organizational capabilities – not individual capabilities – an indication of a company, which is attempting to develop people, develop sustainable processes and institutionalize a culture that will sustain many years of product cycles, not just one.

The **low-profitability companies are focusing on individual capabilities** – and again tactical competencies, such as dependability, problem-solving, technical skills, personal organization and self-development. One anomaly is the appearance of "creativity and innovation" among lower-profit companies. As we described earlier, this may be an indication of high-growth companies with lower margins during their growth phase.

Industrial Manufacturing

ANALYSIS

"Adaptability and flexibility" are highly regarded competencies in high-profit manufacturers ... this indicates that these companies reduce costs by increasing the flexibility of their workforce.

What are the strategies that lead to highly profitable manufacturers? They must invest in manufacturing innovation, they must lead their markets, they must globalize their processes, and they must retain and retrain their workers. Interestingly, many of the competencies in the high-profit manufacturing group are similar to those in the high-growth group: teamwork, quality and job knowledge. It is interesting that "adaptability and flexibility" are also highly regarded competencies in high-profit manufacturers. We believe this indicates that these companies reduce costs by increasing the flexibility of their workforce. When manufacturing plants change or retool, workers must take on new positions. This competency encourages these companies to hire, coach and train people to be more flexible.

We believe that the low-profit competencies in this industry are indicative of higher-growth companies, which are focusing on growth versus profits.

Retail

ANALYSIS

The **higher-level competencies** indicate a more mature organization with more senior people.

Interestingly, here the lower-profitability retailers tend to use almost the identical competencies as the high-growth retailers. This may be due to the "growth versus profitability" tradeoff discussed earlier. We also believe that some of the higher-profitability retailers may have "solved" the problems of integrity, ethics, safety and teamwork through well-built cultures and training programs. As a result, they are managing to higher-level values: customer focus, quality and dependability. These are higher-level competencies, which indicate a more mature organization with more senior people. More-profitable retailers solve the tactical in-store processes through better training, equipment, culture and process – rather than through direct management.

Summary of Findings

Let us again remind the reader that this research does not tell us whether any of these competencies are a "cause," "effect" or "symptom" of growth and profitability. We also want to remind the reader that many other factors weigh heavily on growth and profitability: organizational maturity, size, market positioning and more.

On the other hand, we believe there are some key messages in this research.

1. **High-performance companies** (by growth or profitability) **focus on managing to "organizational capabilities"** and not simply "individual capabilities." They tend to focus on competencies, which drive leadership, management skills and personal growth. **Lower-performing companies tend to value tactical, job-specific competencies** like technical prowess.

2. Performance management by itself is only a formal process under the larger umbrella of "management." **Great companies hire, train and promote great managers.** Great managers will hire and develop great people. Mediocre managers will hire and promote mediocre performing people. We believe this research illustrates that high-performing companies focus on developing everyone to be a good manager – whether you are managing yourself, your teammates or your subordinates.

3. Performance management must follow the company's business strategy. Each of these four industries has very different workforce and talent management challenges.

- Financial services companies are trying to create alignment and break down organizational barriers. High-impact competencies include: "quality," "initiative" and "communication."

★ BEST PRACTICE

Successful organizations focus on the competencies required for their industry at their level of maturity.

- High-technology companies are trying to hire, promote and develop innovation, process excellence and rapid response to market changes. High-impact competencies include: "creativity," "innovation," "leadership" and "customer focus."
- Global manufacturers are trying to drive down costs, increase the flexibility of their workforce and focus on global process excellence. High-impact competencies include: "job knowledge," "quality," "adaptability / flexibility" and "teamwork."
- Retailers focus on in-store behaviors, teamwork and competencies that promote integrity, safety and service. High-impact competencies include "dependability," "customer focus," "integrity" and "safety."

In the wide range of management processes, competencies are the "focus point," which helps organizations understand precisely where to focus resources such as incentives, coaching and development. By clearly identifying the right competencies, organizations can make sure their management processes are recruiting and managing people in the most strategic way.

This research shows us that successful organizations focus on the competencies required for their industry at their level of maturity. If your company is going through a turnaround, a major shift in product or market focus, or another major business change, you should revisit your company's core competencies. The competencies, which brought the company from growth to maturity, may not be the same competencies that bring the company to a new phase of growth.

ANALYSIS

Competencies should truly **reflect the company's culture, business strategy and unique market dynamics.**

4. Competencies send a powerful message. Organizations should not "plug in" ready-made competencies from an existing library unless they truly reflect the company's culture, business strategy and unique market dynamics. A competency model (even a simple one), which is embedded in a performance management process, has many organizational effects. The competency model:

- Tells managers what is important;
- Tells employees what is valued;

- Defines who will be promoted and who will leave the company;
- Contributes to equitable compensation; and,
- Gives hiring managers the guidance to hire the "right people."

★ **BEST PRACTICE**

Keep your enterprisewide **competency model simple.**

We recommend that whatever competency approach your company uses, you enlist the support and buy-in from executive management. Best-practice organizations develop the model with line-of-business management input.

5. Keep your enterprisewide competency model simple. It is only a means to an end: the goal is to build a high-performing, sustainable, resilient organization. If the competencies do not contribute to this goal, simplify them.

There is little value to modeling every employee's tasks for performance management. Individual job functions and workgroups can implement such fine-grained competency management to meet their own needs.

★ **BEST PRACTICE**

Reinforce your company's competencies through every process and behavior in the organization.

6. Reinforce your company's competencies through every process and behavior in the organization. Executives and leaders should model the competencies through their words, their behaviors and their recognition.

Can organizations use performance management processes to drive improved business performance? We believe the answer is clearly yes. We hope that this research helps business and HR managers better understand the important role that competencies play in building a high-performance organization.

Appendix I: Table of Figures

About Us

Bersin & Associates is the only research and advisory consulting firm focused solely on *WhatWorks*® research in enterprise learning and talent management. With more than 25 years of experience in enterprise learning, technology and HR business processes, Bersin & Associates provides actionable, research-based services to help learning and HR managers and executives improve operational effectiveness and business impact.

Bersin & Associates research members gain access to a comprehensive library of best practices, case studies, benchmarks and in-depth market analyses designed to help executives and practitioners make fast, effective decisions. Member benefits include: in-depth advisory services, access to proprietary webcasts and industry user groups, strategic workshops, and strategic consulting to improve operational effectiveness and business alignment. More than 3,500 organizations in a wide range of industries benefit from Bersin & Associates research and services.

Bersin & Associates can be reached at http://www.bersin.com or at (510) 654-8500.

About This Research

This study is based on data made available by SuccessFactors, a leading provider of on-demand performance and talent management software. SuccessFactors' business model gives the company the ability to capture real-time performance management data from its shared database of approximately two million users across a broad cross-section of industries. The availability of this usage data makes this study the first to reflect actual performance management practices, rather than reported business behaviors.

SuccessFactors has legal right to the aggregated data (all of which is anonymous and not specific to any customer) used for this study. SuccessFactors made its data and data analysis available to Bersin & Associates at no cost, and has no paid relationship with Bersin & Associates in association with this study. All data interpretations, explanations and discussions in this study have been independently drawn by Bersin & Associates' analysts.