CHAPTER II – REVIEW OF LITERATURE

2.0 Preview
The purpose of this chapter is to understand the theoretical and practical aspects of research questions by reviewing the previous empirical research studies. This chapter is divided into three sections. In first section, a detailed review of previous research work on Competency Based Performance Management (CBPM) has been done. The key aspects like Competency life cycle, Jobs-based on a Competency-based Approach and Benefits of Competency Based Human Resource Management have been reviewed and analyzed. Competency Based Performance Models proposed by various researchers and HR advisors are also analyzed.

The main objective of this research study is to analyze the impact of CBPM on Business performance (BP). To analyze this, in second section of this chapter, various methodologies (tools) developed by industry experts to review the Business Performance has been studied. Unified BP parameters have been developed by consolidating all the parameters (performance factors). The chapter is concluded with list of previous relevant research studies and findings.

2.1 Introduction

Today’s Organization Management and Human Resource (HR) practices work towards facilitating and improving the performance of employees, which in turn leads to better performance of the organization as a whole. Activities of HR are driven towards development of high performance organization and fostering employee motivation. Thus, Performance Management becomes a critical aspect for Business Organizations.

2.2 Meaning and Definition of Performance Management

According to Armstrong and Baron (1998), Performance Management is both a strategic and an integrated approach to delivering successful results in organizations by improving the performance and developing the capabilities of teams and individuals.
Performance is a quantified result or a set of obtained findings, just as it can refer to the accomplishment, execution, or carrying out of anything ordered or undertaken, to something performed or done, to a deed, achievement, or exploit, or to the execution or accomplishment of work (Stolovitch & Keeps, 1992).

Noe, Hollenbeck, Gerhardt and Wright (2003) define performance management as a process through which managers ensure that employee activities and outputs are congruent with the organizations’ goals. This definition emphasizes the importance of performance management in the execution of organizational strategy. It is through performance management that managers can measure an employee’s input towards the achievement of organizational goals and objectives.

Mucha (2009) defines performance management as an ongoing, systematic approach to improve results through evidence based decision making, continuous organizational learning and a focus on accountability for performance. It uses evidence from performance measurements or appraisals to support effective planning, funding and operations within the organization. This empowers managers to improve on services or products on offer, and increasing both customer satisfaction and where applicable, profits.

2.3 Growth in Adoption of Enterprise-wide Performance Management

Performance management has become one of the most important areas of focus in HR organizations today. HR managers rate “improvement of their performance management processes” as one of their top areas of focus (Bersin & Associates, 2006).

Performance management is the process of managing, coaching, developing and evaluating employees – it is one of the most pivotal processes in a successful organization. It creates alignment, engagement and focus on results. 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 enterprise wide process for performance management and nearly 40 percent have no formal standards at all (Bersin, 2006).

Even organizations that already have enterprise wide processes are now revamping them. Research by Bersin (2006) 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.

2.4 Importance of “Competency” as Basis for Performance Management

Competencies form an integral part of performance management. Following research shows the importance of competency based performance management:

1. Research in 2004 indicates that approximately one-third of organizations use competency-based performance management systems (Corporate Leadership Council, December 2004)
2. Further, 86 percent of HR managers believe that competency management is critical to their success in performance management (Bersin, June 2006). Following Diagram No.2.1 shows criticalness of competency:

Diagram 2.1 Criticalness of Competency
Dubois et al. (2004) described the differences between traditional and competency-based HR management and the benefits as well as the differences in each of the HR systems. In terms of the overall HR function, competency-based HR management moves the focus from compliance and policies to HR playing an important role in talent management, a role that contributes directly to the organizational mission and productivity. HR planning shifts from a focus on head counts and forecasts based on the past to a concentration on talent and qualitative planning methods.

While using traditional approaches to performance management, key concerns or issues have been raised such as lack of agreement on performance criteria, lack of balance in appraising what is accomplished and how it is accomplished, and lack of specificity in discussion of deficiencies (Lucia & Lepsinger, 1999). Competencies provide an evaluation tool against which all individuals, or at least a broad band of individuals, can be evaluated (Byham & Moyer, 2005).

This is particularly beneficial in an environment where jobs may be fluid and people move from one job to another within an organization. Lucia and Lepsinger (1999) described three key ways a competency-based approach improves the performance management system.

- First, use of a competency model provides a shared understanding of what will be monitored and measured. For example, integrating elements of the model into appraisal forms helps balance what gets done, showing a concern for both results and the behavior or manner in which they are attained.
- Secondly, competencies provide focus and help facilitate the performance appraisal dialogue.
- Finally, competencies are a framework for gaining information about behavior, offering a starting point by identifying specific behaviors (e.g., if the competency is teamwork, a boss can look for evidence of behaviors that support teamwork like resolving conflict). Gaining information through peer or 360-degree feedback is easier with competencies as a guide.


2.5 Literature Review of “Competency” approach and models

The terms job competencies, core competencies, organizational competencies, management competencies, and individual competencies are becoming part of today’s business language. The concept of competency is also linked to a growing range of human resource related activities: competency-based performance management, competency-based approaches to developing people, and competency based approaches to developing organizations.

The competency approach to human resources management is not new. Early Romans practiced a form of competency profiling in attempts to detail the attributes of a “good Roman soldier”. The introduction of competency based approaches within the corporate environment initiated around 1970 and their development and use since then has been rapid. Distinguished psychologist from Harvard, David McClelland is credited with introducing the idea of “competency” into the human resource literature; in his efforts to assist the United States Information Agency in improving its selection procedures. The latter argued that traditional intelligence tests, as well as proxies such as scholastic grades, failed to predict job performance. McClelland’s counter argument to the growing dissatisfaction with intelligence testing and the traditional job analytic approaches to personnel selection, was the proposal to test for competency.

As a case study, McClelland proposed the selection of Foreign Service Information Officers (McClelland, 1973). In his research, McClelland found that competencies such as interpersonal sensitivity, cross-cultural positive regards and management skills differentiated superior from average Information Officers.

Unlike physical assets, competencies do not deteriorate as they are applied and shaped. They grow. Competency based approaches have proved to be a critical tool in many organizational functions, such as workforce and succession planning and performance appraisal.
2.6 Definitions of competency

While there are many definitions of competency, most of them have two common elements:

- Competency is an observable and measurable knowledge and skill.
- The knowledge and skills must distinguish between superior performers (or exemplary performance) and other performers.

Researcher has presented below the main definitions of “competencies” from different writers or companies in an effort to provide a complete understanding of the different aspects that this term incorporates.

<table>
<thead>
<tr>
<th>Author</th>
<th>Definition</th>
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<tbody>
<tr>
<td>Marrelli (1998)</td>
<td>Competencies are measurable human capabilities that are required for effective work performance demands.</td>
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<tr>
<td>Dubois (1998)</td>
<td>Competencies are those characteristics- knowledge, skills, mindsets, thought patterns, and the like-that, when used either singularly or in various combinations, result in successful performance.</td>
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<tr>
<td>HR-XML (<a href="http://www.hr-xml.org">www.hr-xml.org</a>)</td>
<td>A specific, identifiable, definable, and measurable knowledge, skill, ability and/or other deployment-related characteristic (e.g. attitude, behavior, physical ability) which a human resource may possess and which is necessary for, or material to, the performance of an activity within a specific business context.</td>
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<tr>
<td>Boyatzis (1982)</td>
<td>Underlying characteristics of an individual, which are, causally (change in one variable cause change in another) related to effective job performance</td>
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<tr>
<td>Perrenaud (2000)</td>
<td>A capacity to mobilize diverse cognitive resources to meet a certain type of situation</td>
</tr>
<tr>
<td>LeBoterf (1998)</td>
<td>Competencies are not themselves resources in the sense of knowing how to act, knowing how to do, or attitudes, but they mobilize, integrate and orchestrate such resources. This mobilization is only</td>
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pertinent in one situation, and each situation is unique, although it could be approached as an analogy to other situations that are already known

<table>
<thead>
<tr>
<th>Jackson and Schuler (2003)</th>
<th>Competencies are defined as “the skills, knowledge, abilities and other characteristics that someone needs to perform a job effectively”</th>
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<td>Intagliata et al. (2000)</td>
<td>Most fundamentally, competencies provide organizations with a way to define in behavioral terms what their leaders need to do to produce the results the organization desires and do so in a way that is consistent with and builds its culture. They should provide the ‘North Star’ by which leaders at all levels navigate in order to create synergy and produce more significant and consistent results.</td>
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<tr>
<td>Oracle PeopleSoft (2009)</td>
<td>Competencies encompass skills, abilities, knowledge, or behavior, such as experience with office equipment, knowledge of special manufacturing processes, or a background in financial planning.</td>
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<tr>
<td>Gartner group</td>
<td>A competency is a set of characteristics, including skills, knowledge and attributes, that causes or forecasts performance</td>
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Five types of competency characteristics were defined by Spencer & Spencer, (1993). These consist of motives, traits, self-concept, knowledge and skills. Motives are known to be the driving force which causes people to achieve goals. Motivation is related to, but distinct from, emotion. Motives drive, direct and select behavior toward certain actions or goals and away from others. Traits are known as the physical characteristics and consistent responses to situations. Self-concept is an individual’s attitudes, values or self-image. Knowledge is the information that an individual has in specific content areas. Finally, skill is the ability to perform a certain physical or mental task. Surface knowledge and skill competencies are easy to be developed and train in the most cost-effective way.
Since its initial conception, attitudes, traits, or personalities have also played a major role in competencies, even though they are not normally thought of as being observable and measurable. Some people group attitudes with competencies, such as McClelland, while others, such as the U.S. Army, separate them by listing attitudes under attributes to create a Capability Model (Northouse, 2004):

![Diagram No. 2.2 Grouping of Attitude and Competencies]

### 2.7 Competency life cycle and core application areas

The competency life cycle is the aggregation of four macro-phases which aim at the continuous enhancement and development of individual and organizational competencies. The four macro-phases are as follows:

1. Competency mapping;
2. Competency diagnosis;
3. Competency development and
4. Competency monitoring.

*Competency mapping* aims to provide the organization with an overview of all the necessary competencies in order to fulfill its targets, which are defined by the organizational business plan, the project requirements, the group needs and the job role requirements. The required proficiency level for each job profile is defined in this phase as well.

The second phase is *competency diagnosis*, meaning an instance of the current situation of the competencies and equivalent proficiency level that each individual employee
possesses. A skill gap analysis is also essential in this phase, in order to define the gap between the number and level of competencies that the employees possess, in comparison with the number and level of competencies required by the organization, according to their job role.

*Competency development* is the third phase and it deals with the scheduling of activities so as to increase the number and proficiency level of competencies that the employees should have, according to the previous two phases and the skill gap analysis.

The last phase is the *monitoring of competencies*, i.e. a continuous examination of the results achieved by the competency development phase.

### 2.8 Use of Competencies in Organization Management

Organizations have realized that while the goal-setting part is relatively easy to define and implement, the competency part is far more complex, subjective and broad in its use. Competencies can be categorized as follows (Bersin, 2006a):

1. Core principles or values;
2. Leadership competencies;
3. Functional competencies; and
4. Career path competencies.

Each kind of competency has its own purpose, and helps organizations to develop the skill sets that will ultimately help drive the business strategy and achieve business goals. This is depicted in the following Diagram:
2.8.1 Values-Based Competencies (Core)

Competencies which describe the behaviors, and which are key to the success of an organization are known as core competencies. They define the skills and abilities that all employees must demonstrate in order to drive business results. They are aligned with and support the primary goals and strategies of the organization. Specification of primary goals and organization strategies are the first steps of identifying core competencies.

Some of the questions that might be included in the process of identifying core competencies include: What are the things the company hopes to achieve? What are the critical business results? What are the primary drivers of success? Where is the company heading?

A corporation’s culture, mission, vision, and values should also be reflected in the organizations core competencies. The majority of competency models include 7-9 core competencies that all employees must demonstrate for the company to achieve strategic goals and objectives (Maddy et al., 2002).

Many organizations choose to develop a small set of “Core Competencies,” which are developed and approved by top management. These competencies take the 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. For example, when a company is caught in ethics violations, 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.

2.8.2 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.

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.
2.8.3 Functional (or Technical) 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.

Technical competencies which are the knowledge and abilities that are required to drive results in the particular position and describe the behaviors that are keys to the success of an individual job or position within the organization are often built upon the foundation of the organization’s core competencies.

Specification of position’s major duties and responsibilities is the main step of identifying technical competencies for any positions. Sample of questions that might be used in the process of identifying technical competencies include: What are the responsibilities for an individual employee in this position? To what results is an employee held accountable? What behaviors must be demonstrated in order for an employee to be successful in this position? For creating a competency model, organization needs to combine its core with technical competencies. Taken together, the core and technical competencies for a job describe the skills, abilities, and behaviors that must be consistently demonstrated in order for an employee to be successful in the job (Maddy etal, 2002).

2.8.4 Career path competencies

Career-path competencies are used within each and every job role and career path. Whereas a functional model can be overarching for an entire function, career path competencies are much more job or role specific. Once established, employees can maneuver themselves through their careers by building upon these specific competencies. For example, a senior engineer will have additional competencies above and beyond a
junior engineer. A consulting engineer will again have others. These are “professional competencies” – similar to leadership competencies, but are used to describe the skills needed to “walk up” a career ladder.

Competence is “the potential to succeed in a situation” including judgments about the context, goals, sufficiency of skills and knowledge, and expected performance. What is relevant here is that competence is context-specific, it is evaluated through some performance criteria, and it is something that the individual is. Competence is more than skills or knowledge: it includes the person’s motives (or value judgments), traits, and self concept. (Martinsuo et al, 1998). Competence, therefore, is in direct relationship with performance: it is needed to accomplish superior performance repeatedly in a particular context or situation.

2.9 Competency Based Human Resource Management

Effective organizations must find, use, develop, and keep people to fulfill their mission. Human resource management is the process of doing that (Dubois et al., 2004; Lado & Wilson, 1994). Traditional HR management systems typically include aspects of recruitment and selection, performance management, compensation, training & development, and career & development planning (Dubois & Rothwell, 2000; Lucia & Lepsinger, 1999; Schippmann, 1999).

In traditional HR management, job analysis becomes the basis for recruiting, selecting, training, rewarding, appraising, and developing people. Using this approach, the HR function seeks to discover the skills, knowledge, and characteristics that contribute directly to the organization’s success and configure HR activities around those competencies (Dubois et al., 2004; Lucia & Lepsinger, 1999; Thompson et al., 1996).

The objective of a competency-based approach is to “identify the competencies required of high performers in key positions throughout the organization; strive to eliminate any competency gaps that exist through effective selection and/or training and development;
and ensure that meritorious performance is recognized and rewarded.” (Weatherly, 2005a) McLagan, (1980) described competency models as a focal point for planning, organizing, integrating, and improving all aspects of HR management systems, a concept called horizontal alignment (Mulder, et al. 2001).

Stone and Bieber (1997) noted that “competencies help make forward-looking HR decisions by clarifying the knowledge, skills, and behaviors needed in the future and by serving as a foundation upon which to build employee selection, training, professional development, performance appraisal, and succession planning.” Weatherly (2005b) stated that “competencies can be used to support the entire HR platform within an organization – from selection and recruitment to training and development, succession planning and total rewards.”

### 2.10 How Competency models support HR systems

Many authors endorse that competency models can support HR management systems (Bernthal et al., 2004; Dubois et al., 2004; Hayes, 1979; Lucia & Lepsinger, 1999; McLagan, 1980; Moulton et al., 2006; Stone & Bieber, 1997; Weatherly, 2005b).

These systems include:

1. Recruitment and selection;
2. Training and development;
3. Employees development;
4. Performance management (e.g., multi-perspective feedback and appraisals);
5. Compensation and benefits (e.g., salary adjustments based on merit);
6. Career development; and
7. Promotion and succession planning.

One goal of looking at competencies is to discover the difference between fully successful and exemplary performers, pinpoint those differences, and then select more people who function at the exemplary level or help others develop that capability (Dubois
Conceptually, an organization uses a competency model to staff positions with employees who possess the characteristics of high performers.

To understand the reasons for using competencies in HR management, it is important to look at what competency-based HR management looks like and the benefits related to some of the HR management systems. Dubois et al. (2004) described the differences between traditional and competency-based HR management and the benefits as well as the differences in each of the HR systems. In terms of the overall HR function, competency-based HR management moves the focus from compliance and policies to HR playing an important role in talent management, a role that contributes directly to the organizational mission and productivity. While HR continues to fulfill its compliance responsibilities, it does so better in a competency-based environment. HR planning shifts from a focus on head counts and forecasts based on the past to a concentration on talent and qualitative planning methods.

Recruitment and selection moves away from qualifications, and assumptions that qualifications equal ability to perform to a focus on decisions based on competency, models for the organization that define the knowledge, skills, and attributes of high performers (Dubois et al., 2004). By clarifying behaviors and practices of effective employees, competency models increase the likelihood that resources invested in hiring put the right people in the right jobs (Lucia & Lepsinger, 1999).

2.11 Competency models encompass the whole HR life-cycle

Competency models provide a complete picture of the job requirements; increase the chance that those hired will succeed, ensure a more systematic interview process, and help distinguish between competencies that can be improved through training and those that are more difficult to develop. Selection focuses on few technical or subject matter skills without taking into consideration the other qualities needed to be successful - for example - customer focus.
A competency model provides a more complete and clear picture for the interviewer and interviewee (Lucia & Lepsinger, 1999). Using competency-based interviewing techniques (e.g., behavior-based interviews), hiring managers can be more effective in determining if an individual has the knowledge, skills, and characteristics to be successful (Stone, 1997). A competency-based training and development system builds individual competencies aligned with measurable high performance and draw process for individuals to know their own competencies and for the organization to identify and cultivate talent (Dubois, et al., 2004).

An important aspect of employee development is that much of the efforts to build competencies occur through learning experiences on the job that are intentional efforts. Also, organizations can target competencies that are most relevant or have the greatest impact, avoiding a short-term perspective.

**2.12 Benefits of Competency based HR systems**
Lucia and Lepsinger (1999) described four primary benefits of competency based HR systems:

1. Competency-based HR systems enable a focus on relevant skills and behaviors. When people are clear about what it takes to succeed, they are better able to make decisions about training and development. Individuals are encouraged to become more active in their own development.

2. Competency-based HR systems ensure alignment of training and development. Focus for training and development aligns with what is essential for the organization. A well constructed competency model describes behaviors for effectiveness on the job and supports the organization’s strategic direction. Thus, HR can develop programs to meet future needs.

3. Competency-based HR systems make the most effective use of training and development. This approach removes the guesswork on where to focus scarce
resources so time and money are well spent. It can also help identify who needs which skills at which point in their career and then provide training and development when employees have a use for it; a time when they are more likely to apply and reinforce experiences.

4. Competency-based HR systems provide a framework for bosses and coaches. The clarity and specificity of competency models provide bosses and coaches a shared picture of what it takes to succeed. Behaviors described in the model can be used as a basis for constructive development discussions.

While using traditional approaches to performance management, key concerns or issues have been raised such as lack of agreement on performance criteria, lack of balance in appraising what is accomplished and how it is accomplished, and lack of specificity in discussion of deficiencies (Lucia & Lepsinger, 1999). Competencies provide an evaluation tool against which all individuals, or at least a broad band of individuals, can be evaluated (Byham & Moyer, 2005). This is particularly beneficial in an environment where jobs may be fluid and people move from one job to another within an organization.

Another example of how competencies benefit HR systems is in succession planning. Many organizations prefer promoting from within, which makes sense for many reasons but is not simple. Lucia and Lepsinger (1999) described key components of succession planning to include:

(a) a list of positions under consideration;
(b) agreement among decision makers about what is required for success in each;
(c) a list of who is ready for filling positions now and why; and
(d) a list of who will be ready soon, accompanied by the person’s developmental needs and actions to close the gaps.

Using a competency model to support these components clarifies required skills, knowledge and characteristics; provides a method to assess candidate readiness; focuses training and development plans to address missing competencies; and allows an
organization to measure its bench strength. The benefits of a competency-based approach were described for several of the HR systems. From an organizational perspective, benefits combine to provide positive results for organizations.

Benefits of using a competency-based approach to HR management have been described in different key areas. Alignment is the term used to describe how competencies link where an organization is going (strategic objectives) and the talent needed to get there (skills of individuals). Competency-based HR management supports and facilitates an organization’s strategic objectives (Dubois et al., 2004; Lawler, 1994; Mulder, 2001; Stone & Bieber, 1997).

### 2.13 Competencies for Organizational Change Management

Concentration and focus has been used to describe the similar concept of competencies helping HR systems as well as employee behaviors and quality of work that supports the mission, values, and strategic goals of an organization (Byham & Moyer, 2005; Dubois et al., 2004; Lucia & Lepsinger, 1999; Mulder, 2001; Thompson et al., 1996). Adapting to and driving organizational change is another benefit.

In an era of rapid change, new skills may be required for changing roles in organizations. Competency models provide a tool for identifying what is needed today and in the future. This approach creates a more flexible and responsive pool of talent by adjusting selection criteria and professional development systems and by supporting development of a broad set of skills (Byham & Moyer, 2005; Lucia & Lepsinger, 1999).

"Core competencies are becoming increasingly important as organizations become more flexible in using their workforces and as they strive to drive organizational change throughout the organization using human resource systems as the vehicle" (Byham & Moyer, 2005). For maximizing productivity, competencies help businesses and individuals focus on what will have the important and biggest impact (Dubois et al., 2004; Lucia and Lepsinger, 1999; Mulder, 2001).
Discussing the impact of competency based approaches, Dubois et al. (2004) stated that “recognizing critical differences in individual productivity implies that more work might be done by fewer people, or that better work might be done by the same number of people.” Costs can also be avoided because competencies reduce the costs of poor selection decisions and investments in professional development (Hay Group, 2003).

Organizational and employee commitment to learning is another benefit of competencies mentioned by several authors (Hamel & Prahalad, 1994; Lawler, 1994; Maddy et al., 2002; Stone, 1997; Thompson et al., 1996). This commitment to learning includes attracting employees with an interest in learning and fostering ongoing learning as well as an environment or organizational culture supporting lifelong learning. Maddy et al. (2002) recommended use of core competencies as a best practice that would support and show a commitment to lifelong learning.

Finally, Rothwell & Lindholm (1999) described competency-based HR management as the “keystone bridge between individual career development and organizational strategy.” The concept of portability is important in an environment of boundary-less careers where individuals move throughout an organization and across organizations. Competencies are portable and are taken with an individual from project to project, job to job, and employer to employer.

2.14 Proper implementation of Competency models is critical

Improper implementation of competency based human resource management models can result in negative outcomes. For example, they can:

a) Develop less meaningful competencies in organizations without clear visions of their goals or strategies;

b) Be quite expensive and time-consuming to administer;

c) Reduce core organizational competencies understanding as a result of poor employee buy-in;
d) Preserve the organizational status quo and inadequately address soft, integrative and/or innovative competencies such as intercultural or cross-cultural competency; and
e) Add nothing in organizations that have difficulty in differentiating between successful and unsuccessful performance and when the competencies are too generic". (Dubois et al., 2004).

2.15 Competency Base as a Strategic Tool

In a model composed by Yodhia Antariksa (2007) (www.strategimanajemen.net), it is propounded that the competency framework can be basis for all people functions and will serve as the “linkage” between individual performance and business results:

![Diagram No.2.4 Competency Based People Strategy](image)
Competency management is a vitally important part of any talent management strategy. In following model by Bersin Associates (2007) (Diagram No. 2.5) it is explicitly clear that competency management touches all four core areas of talent management processes viz. Sourcing & Recruiting, Performance Management, Career & Succession Management, Leadership Development and also dovetails with Learning & Development function as well.

Diagram No.2.5 Competency Management in High-Impact Talent Management

2.16 Competency Base as a Model for Performance Management (From a Jobs-based to a Competency-based Approach)

Jobs have been changing at a rapid pace over the past 20 years; competency-based performance management is becoming more useful than the historical skill-based, transactional process. The nature of work is changing from single-skilled jobs to multi-skilled jobs, from repetitive tasks to problem-solving tasks, from individual work to teamwork, and from functional specialization to collaboration.

Models emerging from theoretical sources tend to be generic. Those generated by focus group and senior management are non-scientific since they are opinion based unless they are validated against performance data. Competency models that emerge from systematic
observation of people and jobs use rigorous research methods to causally link competency with performance (Palaniappan, 2003).

Performance measures are tools used to follow-up the past performance in an organization, predict the level of future performance, and accomplish improvements in performance. Taking a look at the ways in which work is changing, it is necessary for the organization to move from skill-based performance to competency based performance measures. The widely used sources of data for developing competency based performance management model are theory, senior management interviews, and focus groups with subject matter experts, behavioral event interview and generic competency dictionaries.

Traditional performance measurement systems rely on financial accounting measures, e.g. revenue growth rate, return on investment, market share, and unit costs. Competency-based performance evaluates large sets of capabilities and knowledge which can significantly improve organizational productivity to a much greater extent than just doing a job using an existing skill set. The most common type of historical job (the individual repetitive job) is going away and the organization has an increasing need for competency-based evaluations.

Job analysis is considered as the basis of human resource activities used for creating job descriptions and minimum requirements, (Dubois et al., 2004). Job analysis has focused on what employees actually do in their jobs, perceptions of what employees do, what employees should be doing, and what should be done in the future (Dubois et al., 2004; Walker, 1980).

Problems occur when organizations focus on jobs as the criterion for matching employees with work that is important for organizational success. Traditional job descriptions are written to identify activities and may not clearly describe outputs needed for organizational success. Also, traditional job descriptions become quickly outdated in today’s rapidly changing, dynamic environment (Byham & Moyer, 2005; Dubois et al., 2004).
Dubois et al. (2004) further suggested that job descriptions may become disregarded before they are written and thus become hindrance to organizational change. Several authors (Byham & Moyer, 2005; Carnevale, 1991; Dubois et al., 2004; Lawler, 1994; Weatherly, 2005a) have described forces or trends facing organizations and how a competency-based approach can help by moving the focus away from jobs and toward individuals and their competencies.

1. **Technological change**: Need to structure thinking around competencies that enable individuals to make best use of existing and emerging technology (Dubois et al., 2004)

2. **Increased diversity and globalization**: Requires more attention to diversity, open-thinking, and attention to employees who can work in and across different cultures. Competency-based HR helps identify capabilities needed and ensures consistent standards are applied across an organization (Byham & Moyer, 2005; Dubois et al., 2004; Lucia & Lepsinger, 1999).

3. **Accelerated speed to market change and maximizing productivity**: Customer expectations are changing quickly and they expect rapid responses. As organizations are being forced to become more lean, it is increasingly important to have employees with the right competencies to be effective. Competency-based HR can help and focus selection, training, and evaluation systems based on current and future needs (Dubois et al., 2004; Lucia & Lepsinger, 1999).

4. **Growing importance of knowledge capital**: Competency-based HR strives to identify and develop exemplary performance and bring average employees closer to exemplary (Dubois et al., 2004).
5. **Rapidly changing, team-oriented environment**: For organizations to anticipate and react to change, they must have individuals capable of dealing with the associated challenges where jobs change and roles change frequently. Competency-based HR management moves the traditional focus on work to individual competencies that may underpin all required roles, align with organizational problems and strategic issues. In an environment with jobs in flux, competency models provide a tool for describing skills required now and in the future as needs change (Byham & Moyer, 2005; Dubois et al., 2004; Lucia & Lepsinger, 1999).

6. **Organizations with fewer layers, flatter structure, and empowerment/increased employee involvement**: Competencies can help identify the skills needed to operate in an organization with less hierarchy and a culture of high involvement where learning, flexibility, and initiative are important. Competencies help define organizational expectations in an environment where employees have the capacity to do more than in the past (Byham & Moyer, 2005). Fewer advancement opportunities and a need for horizontal movement increase the need for defining competencies so the right people can be identified and moved across or up in the organization without mismatches or errors (Byham & Moyer, 2005; Lawler, 1994).

7. **Clarifying work expectations**: Competency models address issues raised about traditional human resource management by describing: (a) what skills, knowledge and characteristics are required; and (b) what behaviors have the most impact on performance success. This promotes shared understanding about how to perform and what it takes to succeed (Lucia & Lepsinger, 1999).

8. **Popularity of multi-perspective instruments for evaluation**: The use of multi-perspective instruments to help people understand how they are perceived by others has elevated the importance of competencies that form the categories against which people are evaluated (Byham & Moyer, 2005).
9. **More difficult personal career planning**: The dynamic nature of the workplace makes career planning more difficult because paths to advancement are less clear. Competencies provide a framework for self-development efforts and career planning (Byham & Moyer, 2005).

### 2.17 Shift in approach – Traditional (Qualifications) to Meritocracy (Competency)

The more traditional way of categorizing and analyzing employee is through the following:

- **By qualifications**, including forms of certification such as course certificates, degrees
- **By occupational titles**, such as engineer, programmer hardware, (machine) operator
- **By job titles**, such as administrator, system operator, technician, marketing manager, financial officer

However, it has deficiencies as briefly outlined below:

**Qualifications**: Qualifications may not be current. A qualification might have been attained many years ago and some of the knowledge and skills it supposedly represents may have diminished over time. Qualifications may not be relevant to the work, specifically the work required to be performed in organization and job specific contexts.

**Occupational titles**: Similar to qualifications, an occupational title may be a poor indication of skills and knowledge possessed to satisfy specific work contexts. For example, the occupational title of software engineer would not necessarily mean the holder had strong skills and knowledge in building sound software products. Much of the worst forms of restrictions on employee flexibility are tied to occupational titles.

**Job titles**: There is a closer correlation between job titles and work, but this can be misleading because job titles are used differently within and even more so across organizations. For example, the job title “supervisor” might refer to workers with a high level of technical competency in one situation but refer to those who possess more
generic front-line management competencies in another. It could be used to identify those who may have reporting subordinates or those who supervise only processes.

By comparison (with traditional means of analyzing employee), using competency models has a number of potential advantages:

1. Competence has a close and direct relationship with work, as long as the competencies are appropriately specified and constructed.

2. The evidence of competence can be assessed immediately and objectively, without relying on extrapolation from proxy measures of skill and knowledge such as qualifications or past work experience.

3. A focus on competence has the potential to break the connection between works and designated occupational or job titles. The allocation of work to units of employee can be made not on who is allowed to do the work, but rather who has the competence to perform the work.

Competencies can become the building blocks or “units of analysis” for understanding, describing and categorizing labor. They form the best way of easing the translation of business objectives into appropriately applied human capital. Bernthal (2003) propounds that competencies provide the “glue” for a human capital management system, and is elaborated in the following diagram:

Diagram No. 2.6 Competencies providing the “glue” for a human capital management system
The evolution of an effective competency management has demonstrated that the most successful organizations group competencies and link them to multiple business activities. Competencies can help make your key business processes within your HR system consistent across your organization. The idea of “bundling” internally consistent human resource practices to achieve higher productivity, increased total shareholder return (TSR), and improved workforce satisfaction has been researched and documented extensively since the 1990s (Watson Wyatt Worldwide, 1998).

2.18 Competency Based Management Enterprise-Wide-Systems

Today, competencies are enjoying the popularity with the development of affordable enterprise-wide systems software. These systems make it easy for managers to use competencies in planning for, acquiring, developing and promoting the talent needed to make their organizations more successful. Likewise, information on the knowledge, skills and abilities employees need to be successful in their jobs and careers, as well as on-line competency assessment and learning tools make it easier for employees to take ownership of their careers and develop themselves in ways that will advance their job skills and careers.

Finally, these talent management systems make it easier for human resource professionals to move away from time-consuming transactional personnel activities, and refocus their efforts on the value-added strategic management of the human capital of the organization. In fact, research firms such as The Gartner Group identified enterprise-wide competency-based talent management systems as a mainstream trend in the year 2006 and a wave of the future for organizations that want to gain the full value out of the investments they have made in their human capital. This trend towards competency based management (CBM) systems is being driven in most organizations by the retirement and the need to replace a great deal of experience with younger workers with different backgrounds, education systems and experiences.

Companies are initially using competencies for recruitment and retention, developing competency profiles for jobs and job families and using interview guides based on the
desired job competencies as selection tools. Using well-defined job competency profiles along with a good selection process, including competency based interviewing, significantly improves a company’s chance of getting the right person the first time. Selection for promotion also benefits from having well-defined competency profiles for the jobs in the company. Performance management programs are also being refocused on establishing and measuring performance expectations not only for “what” employees must accomplish (traditional performance objectives and standards), but also on “how” (competencies) they must perform in delivering results for the organization.

Learning becomes more directed based on the organization’s needs. Managers and employees can have more meaningful discussions about strengths and gaps in employee competencies, allowing the employee to take actions for improvement and managers to support employee efforts through directed learning activities and programs that are competency based. Managers can also compare and rank order the employee pool available within the organization against specific competency requirements. Managers can view the whole resource pool that is available and not just those employees who are known to the manager.

As a result, the organization benefits by getting the best employees being selected and promoted and employees in turn are given more equitable opportunities for career development and growth within the organization. Employees can then decide on career options that they would like to pursue and develop plans to address gaps and progress in their careers.

Recent research shows that organizations can reap major financial gains through competency-based management. Implementing a competency-based system can make a major difference in the efficiency and profitability of the company, the productivity of the workforce and the amount of manager and HR staff time spent on HR issues, thereby proving a competitive advantage in the market place (Business Today, June 8, 2010).
2.19 Introduction to Business Performance

Performance Management is what organizations do to become more successful and stay ahead of their competitors. In fact, managing performance is the most critical task of any executive or manager. If organizations get it right, their performance management processes allow them to define and communicate their strategies, measure, report and monitor progress in order to manage and improve business performance.

A survey of senior executives of multinational companies (Price Waterhouse Coopers 2008) shows that improving performance management and budgeting and forecasting is a major priority for organizations. In another survey (O’Leonard K, 2009) 40% of the companies surveyed listed performance management as the top priority.

2.20 Literature Review of Business Performance

Business performance management consists of a set of management and analytic processes, supported by technology, that enable businesses to define strategic goals and then measure and manage performance against those goals. Core business performance management processes include financial planning, operational planning, business modeling, consolidation and reporting, analysis, and monitoring of key performance indicators linked to strategy. Business performance management involves consolidation of data from various sources, querying, and analysis of the data, and putting the results into practice. Business performance measurement has a variety of uses.

Bititci, Carrie and Turner (2002) list the following reasons why companies measure business performance:

- To monitor and control
- To drive improvement
- To maximize the effectiveness of the improvement effort
- To achieve alignment with organizational goals and objectives
- To reward and to discipline
Simmons (2000) looks at business performance measurement as a tool to balance five major tensions within a firm:

1. Balancing profit, growth and control
2. Balancing short term results against long-term capabilities and growth opportunities
3. Balancing performance expectations of different constituencies
4. Balancing opportunities and attention
5. Balancing the motives of human behavior

Looking at the firm as a complex organism seeking to survive or thrive in its competitive environment, performance measurement systems serve as a key contributor to the perceptual and coordination/control capabilities of the firm. Firms use Business Performance Management (BPM) approach to help, monitor and control specific activities; to predict future internal and external states; to monitor behavior relative to its goals; to make decisions within needed time frames; and to alter the firm’s overall orientation and/or behavior.

2.21 Worldwide surveys on Business Performance and its management

The following worldwide surveys conducted by research firms also indicate organizations have perceived the performance management as very important, critical and essential activity which leads to better performance:

Worldwide Surveys:

1. 91 percent organizations have a formal performance management program. (WorldatWork & Sibson Consulting, 2010)
2. Worldwide, business intelligence, analytics and performance management software market surpassed the $10 billion mark in 2010. (Gartner, 2010)
3. Survey on Managing Performance (HR Benchmark Group, 2003) shows following are main findings -
   a) Organizations are using a consistent performance management system with a higher percentage of their workforce.
b) 40 percent organizations intend to make significant changes to their performance management systems in the next two years.

c) Performance reviews are occurring more frequently, not just once a year.

4. 98% of ‘best in class’ companies use an employee performance management process, versus 59% of other firms (Aberdeen Group, 2006)

### 2.22 Business Performance Parameters

In the world of work, performance may be taken to mean either the way in which business is conducted or a successful outcome. Managers must be concerned with each interpretation because both processes and outcomes affect organizational success. Individuals are constantly assessing performance and outcomes in daily life using personal sets of scales based on aspirations and previous performance. This implies that performance is often judged against subjective criteria that vary from person to person (Ingram & McDonnell, 1996).

The performance parameters have changed over a period of time. Following is the journey of business performance parameters for last 35 years:

1) **Shareholder Perspectives**: The firm was viewed as belonging to the shareholders, which uses shareholder return to measure overall firm performance (Porter, 1980).

2) **Stakeholder Perspectives**: The firm is seen as having responsibilities to a wider set of groups than simply shareholders (e.g. Freeman, 1984; Reich, 1998; Post et al., 2002; Brown and Fraser, 2006; Steurer, 2006). Other stakeholders can include employees, customers, suppliers, governments, industry bodies and local communities.

3) **The Balanced Scorecard (BSC)**: Perhaps the most widely used BPM framework is the balanced scorecard which uses Financial, Customer focused, Internal Process based and Innovation led parameters. (Kaplan and Norton, 1992)

4) **Balanced Scorecard - the Triple Bottom Line**: While firms began adopting BSCs, public, media and community groups began to pay more attention to the
impact of organizations on the natural environment and on society as a whole. (Elkington, 1997).

5) **Economic Value Added (EVA):** Developed by the Stern Stewart Corporation as an overall measure of financial performance, EVA is both a specific performance measure and the basis for a larger performance measurement framework (Otley 1999).

6) **Customer Value Analysis:** This approach manages business activities that directly or indirectly interact with the firm’s customers. (Gale, 1994 and Rust, et al 2000).

7) **Quality Management:** Firms have adopted Total Quality Management, Six Sigma, European Foundation Quality Management for measuring businesses performance (Kaplan & Lamotte, 2001).

8) **Action-Profit Linkage Model:** Firms can identify, measure and understand the causal links between company actions and profits (Epstein and Westbrook, 2001).

9) **Activity-Based Costing:** This is a way of measuring which of the firm’s activities generate revenues in excess of costs and as a result, provide keen insight into what is really providing value for customers (Meyer, 2002).

10) **Sustainable Balanced Scorecard:** This includes social and environmental issues in the existing Balanced Scorecard frameworks (Hubbard 2009).

Business performance measures have changed over the period of time. Following are the business performance parameters, as compiled by Strategy2Act through literature review. (http://www.strategy2act.com/)
Table No. 2.2 Business Performance Parameters

<table>
<thead>
<tr>
<th>Authors</th>
<th>Financial</th>
<th>Customer</th>
<th>Competitor</th>
<th>Infrastructure</th>
<th>Learning</th>
<th>Strategy</th>
<th>Product</th>
<th>Flexibility</th>
</tr>
</thead>
<tbody>
<tr>
<td>Keegan (1989)</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td></td>
<td>Yes</td>
<td></td>
<td>Yes</td>
<td></td>
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<tr>
<td>Fitzgerald (1991)</td>
<td>Yes</td>
<td></td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td></td>
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<tr>
<td>Azzone (1991)</td>
<td>Yes</td>
<td></td>
<td></td>
<td></td>
<td>Yes</td>
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<td></td>
<td>Yes</td>
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<tr>
<td>Lynch (1991)</td>
<td>Yes</td>
<td>Yes</td>
<td></td>
<td></td>
<td></td>
<td>Yes</td>
<td>Yes</td>
<td></td>
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<tr>
<td>Kaplan (1996)</td>
<td>Yes</td>
<td>Yes</td>
<td></td>
<td></td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
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<tr>
<td>Brown (1996)</td>
<td>Yes</td>
<td>Yes</td>
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<tr>
<td>Neely (2000)</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>

### 2.2.3 Competency Based Performance Management (CBPM) in IT Industry

As seen from the Literature Review detailed earlier, the whole approach in the 1990s regarding the improvement of organizational performance shifted to the endorsement of people and their competencies.

In IT sector competencies are used in several ways. If tasks have to be performed or staff is selected for a project, the competencies of the staff can be used to find the appropriate person (Equity Master, 2012). Required competencies can also be used to specify new personnel to be hired. Sometimes companies set the salary of employees based on their competencies they actually apply (Tucker and Cofsky, 1994). Competencies required are often derived from the organization’s strategy.

A company may derive by means of a gap analysis which competencies are missing. Competence management is also required in projects where several companies are involved (Dorn, 2006). An inter-organizational project may be required to be initiated because competencies of several organizations need to be considered in gap analysis.
It sector projects are projects in which software applications are produced to solve current problems of users. Besides the distinction between system, programming and application software, one may categorize IT systems by considering their target group. They may be implemented for a specific customer or user group, or as a standard tool.

In most cases, the high complexity of the system or limited personnel, temporal and financial resources require team working. Members must have certain competencies in order to be able to carry out different tasks in all phases of the design process, like analysis, coding, evaluation and deployment.

Processes, logical and temporal order of tasks, artifacts’ created and used during the design and development process, communication and cooperation practices are different in these process models. Depending on the type of the project, project managers normally choose the most appropriate process model, which again depends on the competencies project members have.

As per Draganidis and Mentaz, (2006), Competence management systems have to fulfill several requirements concerning the content (how detailed the competency model is developed), the technical implementation (which data is kept, when and how data are kept up-to-date) and the organizational implementation (who implements the system, how are people motivated to use the system and to keep data up-to-date).

Following are example of two multinational IT companies currently using the Competency-Based Performance Management Model worldwide:

1) Microsoft implemented a competence management system by defining more than 300 competencies in four categories (foundation, local and unique, global, and universal skills). Basic, working, leadership, and expert are the terms for different competency levels. Staff members are rated by themselves and by their superiors within an iterative process. Microsoft expects better matching of employees to jobs and work teams. Moreover, they expect that employees will know better
what competencies are required and thus are better consumers of educational offers (Davenport and Prusak, 1998).

2) Before introducing a competence management system, Ericsson had individual solutions in each country, sometimes paper-based or based on databases or spreadsheets. They extended the SAP R/3 Personal Management Module and implemented a competency catalogue. For the grades there exists a scale from 0 (not assessed) to 9 (excellent). The values are evaluated by using the period of time a person has used the competency (Hustad and Munkvold, 2005).

Dorn and Pichlmair (2007) have developed a competence management system. The system is based on a method of defining competencies, evidence types and jobs in information systems and computer science domain. The system distinguishes competencies in knowledge and an experience aspect. To decide on a competency, evidences such as passed examinations, trainings, assessments, project work, e-learning courses and more are stored. Each competency can be evaluated on three levels: beginner, advanced and expert and on each of these levels a further finer scaling can be done.

Based on the above, it is concluded that Competency Based Performance Measures encompass the whole lifecycle of a human resource in a company and the ones which help in its management can be summarized as: (first) defining competencies (so as to help in manpower planning); (secondly, competency based) recruitment and selection; (third) training and development; (and fourth, competency based) performance appraisal and employee reward (in line with company’s vision and mission).
2.24 Literature review of IT competencies in various countries

IT industry is expected to play a much bigger role in the coming years in the growth of Indian economy. Defining and measuring competencies is crucial. A framework that is used as the foundation of an organization’s talent management strategy should ideally provide the link between human resources and tangible business outcomes.

Relevant literature survey was done to list competencies in IT sector in Egypt (Kandeel & Wahba 2001), Thailand (Booneka and Kiattikomol, 2008) and India (Velayudhan, 2011).

These are summarized below:

2.24.1 Differentiating Competencies in Software Industries in Egypt


2.24.2 Ranking Competencies for Software Developers in Thailand

The shortlist of important competencies as follows: Expertise (includes knowledge, application, continuous learning, understanding client’s requirements, understanding business requirements, prioritization of tasks), Teamwork (includes follow-up policy making, acceptance of other’s idea), Relation and Communication with others (includes respect for older people), Service Mind (includes appreciation and understanding of client needs), Achievement (includes motivation, diligence, patience, circumspection,
responsibility, time management), Flexibility (includes compromise), Leadership & Influence (includes control of situation), Emotion & Ethic, Logical Thinking (includes ability to design algorithms), System Thinking, Future Thinking, Creative Thinking.

2.24.3 Competency Mapping in Cognizant Technology Solutions & Hindustan Computers Ltd in India


2.25 Identifying Business Performance Parameters in IT sector

The approach of this research is to study performance measurement in IT Sector companies and study the correlation of the same with a balanced set of measures that are derived from the goals of the organization.

One promising approach to identifying Performance variables is the application of the balanced scorecard (Kaplan and Norton, 1992). The balanced scorecard is a set of measures that gives a comprehensive view of the business. The scorecard brings together, in a single management report, diverse elements of a company’s competitive agenda (Kaplan and Norton, 1992). While the balanced scorecard framework defines what a business should focus on or what it takes for a company to succeed, the strategic HR framework offers specific tools and paths to attain business goals. For a business to succeed in the long run, the expectations of three stakeholders viz. shareholders, customers and employees need to be satisfied (Yeung and Berman, 1997).
### 2.26 Unified Matrix of Business Performance

After extensive literature review and thorough study following Unified Matrix has been developed to identify and understand all business performance measures relevant to the IT sector:

**Table No.2.3 Unified Matrix of Business Performance Measures**

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Particulars</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td><strong>Financial</strong></td>
</tr>
<tr>
<td></td>
<td>a) Revenue growth</td>
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<tr>
<td></td>
<td>b) Cost reduction</td>
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<td></td>
<td>c) Increase in productivity</td>
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<td></td>
<td>d) Asset utilization</td>
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<td></td>
<td>e) Sales performance</td>
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<tr>
<td></td>
<td>f) Return on Investment</td>
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<tr>
<td>2</td>
<td><strong>Customer</strong></td>
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<tr>
<td></td>
<td>a) Market share</td>
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<td></td>
<td>b) Customer acquisition</td>
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<tr>
<td></td>
<td>c) Customer retention</td>
</tr>
<tr>
<td></td>
<td>d) Customer profitability</td>
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<tr>
<td></td>
<td>e) Customer satisfaction</td>
</tr>
<tr>
<td>3</td>
<td><strong>Internal Business Process</strong></td>
</tr>
<tr>
<td></td>
<td>a) Innovation</td>
</tr>
<tr>
<td></td>
<td>b) Post Project/sales service</td>
</tr>
<tr>
<td>4</td>
<td><strong>Learning and Growth</strong></td>
</tr>
<tr>
<td></td>
<td>a) Employee retention</td>
</tr>
<tr>
<td></td>
<td>b) Employee satisfaction</td>
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<tr>
<td></td>
<td>c) Employee productivity</td>
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<tr>
<td>5</td>
<td><strong>Competitors</strong></td>
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<tr>
<td></td>
<td>a) Strategic Alliance</td>
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<td></td>
<td>b) Strategic Advantage</td>
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<td></td>
<td>Strategy</td>
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<tr>
<td>6</td>
<td>a) Anticipating changes</td>
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<td></td>
<td>b) Product/service designed to</td>
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<td></td>
<td>accommodate expected changes</td>
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<tr>
<td>7</td>
<td><strong>Product and Process with respect</strong></td>
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<tr>
<td></td>
<td><strong>to time and quality</strong></td>
</tr>
<tr>
<td></td>
<td>a) Product and Service quality</td>
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<td></td>
<td>b) Labor efficiency</td>
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<tr>
<td></td>
<td>c) Project Cycle time</td>
</tr>
<tr>
<td>8</td>
<td><strong>Resource and infrastructure</strong></td>
</tr>
<tr>
<td></td>
<td>a) Resources</td>
</tr>
<tr>
<td></td>
<td>b) Buildings</td>
</tr>
<tr>
<td>9</td>
<td><strong>Agility and Flexibility</strong></td>
</tr>
<tr>
<td></td>
<td>a) Flexibility</td>
</tr>
<tr>
<td></td>
<td>b) Ability to make quick changes</td>
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<tr>
<td></td>
<td>c) Speed to market</td>
</tr>
<tr>
<td></td>
<td>d) Response time to customer call</td>
</tr>
<tr>
<td>10</td>
<td><strong>Social Performance</strong></td>
</tr>
<tr>
<td></td>
<td>a) Job opportunities</td>
</tr>
<tr>
<td></td>
<td>b) Environmental concerns</td>
</tr>
</tbody>
</table>
2.27 Summary of Major Literature Survey Findings

1) Competency approach to human resources management is not new. The introduction of competency based approaches within the corporate environment initiated around 1970.

2) It is found that organizations are moving from a Jobs-based to a Competency-based approach but at low speed.

3) Several authors have described forces or trends facing organizations and how a competency-based approach can help by moving the focus away from jobs and toward individuals and their competencies.

4) Improper implementation of competency based human resource management models have resulted in fewer positive outcomes in the organization. However, there is no record of losses due to this model.

5) Competency management is a vitally important component and it plays core part of talent management strategy.

6) Business performance measures have changed drastically over the period of time – i.e. from Shareholder value in 1980 to Sustainable Balanced Scorecard in 2009. Overall, Balanced Score Card (BSC) is one of the most popular with organizations.

7) There are few research studies which focus on general HRM practices and some others which focus on specific element (e.g. training) of competency on performance through case study approach. However, it has been found from the literature review that no specific research study has been conducted with respect to impact of Competency-Based Performance Measures (Management) on business performance in IT industry (either in India or Overseas) at an approach level.

8) This can be seen as a very significant finding in CBPM research where there has been no prior attempt to study the relationship between CBPM practices and organizational performance along with intervening variables.
2.28 The Research Gap – Linkage of Competency Based Performance Measures (Management) to Business Performance

It may be mentioned that in the context of Competency Based Performance Management, the word Management includes and incorporates the Measures which are part & parcel of Performance Management, hence the word Measures and Management have been used interchangeably in this research.

Although there are various stakeholders in an organization, the chief strategic goal of any business is higher financial performance or maximization of wealth for the shareholders (Becker and Huselid, 1998; Horngren et al., 2000). Financial performance of an organization depends to a large extent on effective operational performance.

The operational performance of an organization is a function of people, process and technology (Curtis et al., 1995). For effective interaction of people with technology and process, the people in the organization have to be competent enough, with the required knowledge, skill and abilities (Huselid, 1995; Barney and Wright, 1997). Competence of the individual is an important factor that decides operational effectiveness in terms of providing quality products and services within a short time (Brooks, 1987; Wynekoop and Walz, 2000).

Research on HRM has identified few immediate effects of HRM practices, known as HRM outcomes. Such HRM outcomes include knowledge, skill and abilities or competence (Schuler, 1989; Becker et al., 1997; Pfeiffer, 1994; Barney, 1991; Lengnick-Hall and Lengnick-Hall, 1999; Sandberg, 2000; Beer et al., 1985; Lado and Wilson, 1994), motivation (Pfeiffer, 1994), organizational commitment (Beer et al., 1985; Beaumont, 1993; Ulrich, 1997; Putti et al., 1989; Storey, 1995; Yeung and Berman, 1997), behaviour (Schuler, 1989; Jackson et al., 1989; Rucci et al., 1998; Morrison, 1996), flexibility (Storey, 1995; Pfeiffer, 1994; Beaumont, 1993), customer orientation (Storey, 1995), teamwork (Beaumont, 1993) and cost effectiveness (Beer et al., 1985).

Gaining insights from the concept of the balanced scorecard, conceptual models and
immediate HRM outcomes identified by prior researchers, it is possible to develop an integrated HRM-firm performance model.

From the Literature Survey it is evident that there are few research studies which focus on general HRM practices and some other studies which focus on specific element of competency (e.g. training) on performance through case study approach. Also from the foregoing discussion, it can be seen that competency-based performance measures can significantly improve organizational productivity than just doing a job using an existing skill set.

HRM practices such as selection, training, work environment and performance appraisal may enhance the competence of employees for higher performance (Latham and Wesley, 1981; Snell and Dean, 1992; Lado and Wilson, 1994; Terpestra and Rozell, 1993; Koch and McGrath, 1996; Pfeiffer, 1998).

However, in HR practice, there is inability to measure real employee performance i.e. measuring behavioral skills which have competitive advantage and are distinguishable. This is primarily because in current HRM practice there is no standardized linkage of competencies which would lead individual performance to organizational vision and mission. Hence the need to investigate linkage of Competency Based Performance Measures to Business Performance is prominent.

It has been found from the literature review that no specific research study has been conducted at an approach level with respect to impact/relationship of Competency-Based Performance Measures (Management) on Business Performance in IT industry (either in India or Overseas). This gap is the basis of the current research study.

Therefore, efforts have been made in this research study to explore the relationship between Business Performance (BP) and Competency Based Performance Measures (CBPM) in Selected IT Companies in Pune.
2.29 Need and Justification of this Research Study

Study of Competency based Performance is absolutely necessary. Following shows need of this research work:

1. The global trend shows that the performance management concept has taken good root worldwide but it is seen from the survey that Performance Management concept still needs to grow scientifically within Indian corporate houses. This may be because corporate houses might not have realized its full potential or the industry is not geared up to implement this concept. Corporate houses need to understand the importance of Performance Management concept for competitive advantages. Therefore, the current study is necessary, which can show the impact of competency based performance management on business performance.

2. Leaders make all the difference in powering corporate growth but efforts to develop and hire executives need to be systematic, if they are to have meaningful impact on the bottom line. The first action in this regard is about aligning corporate strategy and leadership competencies.

3. Following survey in Diagram No.2.7 shows competencies of current workforce compared to strategic needs.

A heat map shows competencies of current workforce compared to strategic needs

Diagram No 2.7 Critical Competencies for Corporate Growth

This study has been jointly carried out by Egon Zender International and McKinsey & Company. There are many gaps in the organization with respect to
competencies. Defining competency based model is absolutely important. Competency Based Performance Management identifies and fills all the gaps at various levels. The current study is therefore necessary, which attempts to study the impact / relationship of competency based performance management on business performance.

4. Software Companies are considered as knowledge-based organizations. Defining competency based model is absolutely important for better results. However, research studies show that 41 percent of organizations have good or excellent leadership competencies, but 22 percent (nearly one in four) feel their leadership competencies are poor or need revamping – thus necessitating a further work in this area.

5. CBPM provides identification of the skills, knowledge, behaviors and capabilities needed to meet current and future personnel selection needs, in alignment with the differentiations in strategies and organizational priorities.

6. CBPM focuses on individual and group development plans to eliminate the gap between the competencies requested by a project, job role, or enterprise strategy - which are very much relevant to the IT sector.

7. Indian IT industry had a phenomenal growth in the last decade. IT industry is expected to play a much bigger role in the new millennium in the growth of Indian economy. Competencies for professionals in the performance improvement field have received considerable attention in recent years. Defining and measuring competencies is crucial. Competencies provide a clear and integrated set of dimensions against which performance can be described and measured. A framework that is used as the foundation of an organization’s talent management strategy provides the link between human resources and tangible business outcomes.
2.30 Chapter References


Training & Development


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