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BASED ORGANIZATIONS**

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From Job-Based to Competency-Based Organizations

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Research and theory in the fields of organizational behavior and human resource management have been focused for decades by the view that jobs are the basic building blocks of complex organizations. The idea that individuals have a job which involves specific accountabilities, responsibilities, and activities is well-established and fundamental to much of the research in organizational behavior. It is also basic to many government programs and in the United States is institutionalized in the Dictionary of Occupational Titles. The popularity of job based approaches can be traced back to the era of scientific management when the work of Frederick Winslow Taylor did much to develop the idea that jobs can be studied, specified, and that work methods for doing them can be improved and rationalized. The evolution of the bureaucratic approach to organizing carried the idea of jobs further into an overall approach to organizing and managing large numbers of people to accomplish particular goals and objectives. It led to the rationalization and development of hierarchies, line/staff jobs, job evaluation methods, and a host of organizational approaches that rest upon the idea of individuals holding jobs.

Much of the technology in the area of human resource management is grounded in the idea of individuals holding jobs. Ash, Levine, and Sistrunk, (1983) for example, argue that the job paradigm is the unifying concept in employee selection, training, performance management and compensation. Indeed, most organizations begin their approach organizing with a job description that typically specifies an individuals duties and activities. Job descriptions are then used for training, selection, career development and pay determination. These human resource management systems are all designed to assure that individuals will be motivated and capable of performing jobs. They are selected to fit jobs, trained to perform them, and rewarded based on how well they perform them. Job descriptions are also used as a basis for grouping individuals together into organizational units, and finally, as the basis for rationalizing the overall structure of the organization.

Despite its historical utility, there is growing evidence that it may be time to for many organizations move away from a focus on jobs and toward a focus on individuals and

their competencies (Lawler and Ledford, 1992). In many situations there is good reason to believe that the concept of an individual holding a job is no longer the best way to think about organizing and managing individuals. Instead of thinking of people as having a job with a particular set of activities that can be captured in a relatively permanent and fixed job description, it may be more appropriate and more effective to think of them as human resources that work for an organization.

The change from a job-based to a competency-based approach to organizing and managing is a fundamental one that requires a change in virtually every management system in an organization. It has the potential for creating a number of new theoretical and research issues for the fields of organizational behavior and human resource management. Before discussing some of the implications of a competency-based approach to organizing, it is important to discuss briefly the forces which suggest the need for a move from job-based to competency-based approaches to organizing.

Nature of Work

Scientific management and the bureaucratic approach to organizing try to standardize the contributions of individuals to their organizations' effectiveness. Inherent in bureaucratic theory is the assumption that individuals add value to the degree that they can fit the work structure of an organization. Thus, selection tests are designed to identify individuals who can fit an existing job opening and training programs are used to develop the skills of individuals so that they can do the jobs that have been created. In a sense, effective organization in this approach usually means doing the basics of selection, job design, and organization design better than competing organizations. The implicit assumption is that the best way to optimize organizational performance is to fill jobs with appropriately skilled individuals and motivate them to perform effectively through pay and other rewards. The work on job enrichment and self-managing teams has taken this one step further by pointing out how job design can influence motivation (Hackman and

Oldham, 1980). The hierarchy of responsibilities, duties, and accountabilities that is part of the bureaucratic approach leads to a command and control structure which has as its foundation the accountability of individuals for their own job performance and a supervisor or manager who assesses how well an individual performs his or her job duties.

The job based approach to organizing fits the mass production economy that dominated Europe and the United States during most of the 20th century. A number of factors have combined however to bring into question the future effectiveness of this approach. Work in the area of organization strategy suggests that organizations cannot be successful in many businesses simply by adopting a mass production approach to the market (Porter, 1990; Galbraith, Lawler, and Assoc., 1993). Rapid developments in computing, information technology, and the movement to a global economy, have combined to change business competition as well as the type of work which is done in the more developed countries (Doyle, 1990). More production jobs are moving to low wages countries while developed countries are doing more knowledge and service work. There is a general consensus that because of these changes organizations in developed countries need to be much more adaptable and to compete on the basis of their core competencies and skills (Prahalad and Hamel, 1990; Hamel and Prahalad, 1991). Indeed, it appears that competitive advantage often rests with an organizations ability to develop particular organizational competencies, not in its size, financial resources, or even technological resources (Lawler, 1992).

Global Competition

The globalization of competition has had a major impact on the level of performance that organizations have to demonstrate in order to be successful. The Total Quality movement, for example, has raised the hurdle significantly in the area of product and service quality. Speed to market and speed in responding to customers has become an

increasingly visible basis of competition (Stalk, Evans and Shulman, 1992). As organizations operate more globally they face an environment that is less predictable and less stable and as a result they need to be able to respond much more quickly to environmental changes. This means they need to place increasing importance upon being able learn new capabilities and develop individuals to perform in new and more complex ways.

One major consequence of the new performance demands that organizations face and the idea of organizational capabilities as a basis for competition concerns the role of individuals. It directly effects the kind and amount of value that they are expected to add. Instead of their simply being parts of a large, bureaucratic organization where they may do the same thing (job) as hundreds of other individuals, they become a key competitive asset (Doyle, 1990). Their knowledge and skills become critical to the ability of the organization to perform. Unlike individuals that are simply filling jobs that are designed to be easily filled through selection and training processes, they become key organizational resources. In essence, their skills, capabilities, and learning become an important part of the organizations ability to compete and are at the heart of an organizations adaptability and ability to learn (Senge, 1990).

Organizational Change

An unmistakable priority in a rapidly changing environment is the need for organizations to constantly change their structure. This runs directly counter to the static job-based approach to organizations that has been so dominant. It assumes that jobs are relatively permanent and that individuals can be selected and trained to do them for a number of years. It also assumes that the worth of an individual rests in their ability to do a particular job and that thus, individuals are synonymous with jobs, so that individuals can be paid according to the worth of the job that they are doing. In a rapidly changing environment the whole idea of job stability becomes dysfunctional and inappropriate. In

most cases, individuals need to rapidly change what they are doing and in some cases, to change the skills that they have in order to perform in new and different ways. Keeping pace with the need to change job descriptions to fit changing organizational structures and environmental demands can be a cumbersome process.

Organization Structure

A unmistakable trend among firms in modern economies is a tendency to become flatter in order to reduce costs and increase competitiveness. In the U.S., three-fourths of the Fortune 1000 reduced the number of management layers during the 1980's while two-thirds both downsized and reduced layers (Lawler, Mohrman and Ledford, 1992). One of the effects of flattening an organization is to place increasing emphasis on the importance of individuals being able to self-manage and take responsibility for their own performance. Inherent in self-management is individuals being able to identify what needs to be done because of their understanding of the business and the strategy that the business is executing (Lawler, 1992). Again, this trend runs in the face of job descriptions which say that an individual's accountabilities can be expressed in terms of a limited, well defined set of activities which are performed over a period of time.

The flattening of an organization's structure also raises particular challenges to job-based systems that are predicated upon hierarchical careers and responsibility. As organizations become flatter, the opportunities for individuals to move up the hierarchy rapidly disappear. If an individual is going to continue to learn, develop, and progress, there needs to be other channels of development. Most job-based systems are not designed to facilitate this. Pay systems, for example, work against it by indirectly and sometimes directly punishing individuals who make lateral or horizontal moves as well as individuals who broaden their responsibilities and their skills by doing a greater variety of things instead of by taking on more responsibility (Lawler, 1990).

Overall, the trend to organizations needing to be more adaptable, to add more value to their products and services, and to rely on organizational capabilities as a source of competitive advantage combine to fundamentally challenge the idea of using jobs as a basis for managing individual and organizational behavior. When work is routine and focused on mass production it is reasonable to assume that individuals can be managed through the use of job descriptions and systems that are related to those job descriptions. Most individuals are not expected to make unique contributions or add significantly to the value of the products or services they deal with nor are they expected to constantly learn and change their behavior. Thus, training them and paying them to do a particular job well is appropriate. However, in today's environment it runs the risk of creating organizations that under utilize employees and do not develop the kind of capabilities that are necessary to perform successfully. In essence, the system fails to focus on the capabilities and motivation of individuals, a dangerous trend in situations where individuals have moved front and center as the key resource of an organization. The basic problem is that the development and management of individuals is a second order effect of the management system which has as its major focus filling jobs with individuals who can perform them.

Competency-based Organization

The alternative to job based organizing is to design organizational systems in which the capabilities of individuals are the primary focus and which cause them to be managed in a way that facilitates organizations developing organizational capabilities that provide competitive advantage. Some work has been done that suggests what an organization that is designed from a starting point of creating individual and organizational capabilities looks like. As will be discussed, it calls for different approaches to organization design, work design, and human resource management in the areas of selection, career development, pay, and overall competency management.

Organization Design

Development of a more competency-focused approach to organizing may turn out to be a key break-through in allowing new and more flexible approaches to organizing. It has been argued that consulting firms and other professional service firms already incorporate many of the concepts of skill-based organizing and that as a result they are more flexible and more customer focused than are traditional job-based organizations (Peters, 1992). In some respects their task in creating skill-based organizations is relatively simple because there are clearly established bodies of knowledge upon which they draw, such as accounting, law, finance and marketing. The key issues for them are how many individuals with each kind of skills do they need, and of course, how much cross-training is necessary. In any case, the availability of individuals that have skills in particular disciplines allows them to deploy groups of individuals to take on projects and activities. A similar approach may be appropriate in many other organizations. Often however, situations are not structured such that there are traditional bodies of knowledge that organizations can draw upon in order to approach their particular programs and projects. Thus, there is the need for the development of skill sets that are appropriate and unique to the organization and that will provide core competencies and competitive advantage. This raises numerous issues around how to best manage individuals so they develop and maintain the correct skill sets and how to rapidly change the organization as old projects disappear and new ones appear.

An increased focus on organization capabilities and a focus on managing individuals and their capabilities raises a number of interesting research issues concerned with organization design. It clearly suggests that the traditional functional organization is unlikely to be appropriate (Galbraith, Lawler, and Associates, 1993). It is very consistent with a job based model that groups individuals according to similar job activities and relies on excellence in each job activity to produce effective organizational performance.

Increasing demands with respect to speed and quality have led to calls for organizational structures that emphasize cross-functional teams and the break down of the traditional functional organization (Peters, 1992). This has the potential advantage of improving the lateral operation of an organization and supporting the general movement to lean less hierarchical structures. However, from a research point of view, there are a number of unanswered questions with respect to how this kind of structure can be operated effectively.

There appears to be a real risk of organizations losing functional excellence because functions are distributed throughout the organization and there is no protection of particular functional competencies. The challenge, of course is to create structures which simultaneously maintain functional excellence while integrating functional expertise into teams and structures which operate laterally. In some respects this potentially returns organization design back to the matrix structures which were written about in the 1970's. Making them work however, proved to be a difficult challenge and led to a decrease in their popularity. With a more competency focused approach to management it is possible that structures of this type can be effective. Particularly if they are supported by changes in the selection, career movement and pay systems, it may be possible to operate organizations which combine higher levels of functional expertise with a focus on lateral cross-functional relationships. The key question from a research point of view is, "What combination of practices and systems is likely to produce this type of dual focus?".

Work Design

Perhaps the most fundamental implication of moving to a skill or competency based approach to management concerns the area of work design. Instead of the fundamental building block of the human resource management system being the job, in a skill-based approach the basic building block needs to be the individual. Instead of developing detailed job descriptions, organizations need to develop skill and person descriptions.

These descriptions should indicate the skills that an individual needs in order to be effective in their particular work area.

The skill-based approach is likely to be most effective in work situations where knowledge work is involved and where individuals can add significant value to the product or service. It also seems likely that its effectiveness can be enhanced by individuals being relatively self-managing. The types of work design that are established in the job enrichment and self-managing work team approaches are a particularly good fit with a skill-based approach.

Particularly in environments where work is either highly-interdependent or rapidly changing, there is a strong argument for the basic work unit being a "work team" rather than an individual job (Galbraith, Lawler and Associates, 1993). In many cases, the immediate assignment of tasks to individuals can be done by their work team, and thus, there is no permanent assignment of work activities to particular individuals. Instead, teams are assigned the responsibility for the performance of a particular work process or for dealing with a particular set of customers. A work team can be structured around a production process, service process, or a customer base, and given the latitude and responsibility for a particular area. Within the work team, individuals need to be developed so that they can contribute critical capabilities to the team. This requires the identification of the critical skills that are needed to make the team effective and the development of a learning program for individuals so that they can contribute to their teams effectiveness.

The alternative to a team approach is to continue to assign work to individuals. This makes sense where independent tasks can be identified and can be performed by one person. Focusing on skills should facilitate an organization taking a dynamic view of what activities an individual will perform. As individuals develop new skills the things they do can be increased and as work demands change they can be flexibly deployed.

It is precisely in the relationship between the technology the organization uses to produce its products or services and the nature of skill sets that individuals require where

the research on self-managing teams and work processes is critical. The skill learning programs for individuals need to carefully consider the work processes that the organization needs to execute in order to be effective. If these are not taken into account the learning experiences of individuals run the risk of being unrelated to critical organizational performance issues and as a result, wasteful and inefficient.

In a traditional organization, the concept of jobs often substitutes for the analysis of work processes and the skills needed to perform them. The challenge in a competency-based organization is to focus on what individuals need to be able to do in order to make the work processes operate effectively. This theme is receiving heavy emphasis in the literature on re-engineering and Total Quality Management. It has a strong historical base in organizational behavior research and theory concerned with socio-technical analysis.

Taking a skill-based approach to work design raises a number of interesting research issues concerning how people think about their work and identify with an organizations goals and purpose. For many individuals, their job is an important part of their self-concept and they get their intrinsic rewards from doing it effectively. The competency-based approach to organizing requires a change in this mentality and raises issues concerning how individuals will adapt to this change, and what characteristics of individuals might be associated with successful adaptation. For example, the change might mean that people will think of themselves as being a team member or an organizational member with certain capabilities at any particular moment, however, they may be performing a task which provides them with intrinsic rewards if they perform that particular task well. Overall, the movement from a more static job based model to a more fluid skills development/skills utilization model raises issues concerning both the motivation and self-concept of individuals and how organizations define the accountabilities of individuals and/or teams.

Selection

Traditional selection activities focus on finding individuals who fit particular job openings. In the skill-based model, selection is best thought of as finding individuals who fit the learning environment that is provided by the organization. In essence, the task is to select individuals for organizational membership, not for a particular job (Bowen, Ledford, and Nathan, 1991). Thus, the selection process needs to focus on identifying people who can learn and follow the various career tracks that are available in the organization. Attention needs to be given during the process to finding the right number of individuals for the different skill development opportunities the organization offers.

It seems likely that the best approach to selection for a competency-based organization will include a realistic job preview, as well as assessments of whether individuals are capable of learning the types of skills that are needed by the organization. It may be that realistic job previews will prove to be more effective in a competency-based organization than they are in a traditional organization. Of course, in some cases, experienced individuals are needed, and then a critical element of the selection process should be selecting individuals who can already perform specific skills. Assessment by already existing members of the workforce may be a helpful way of deciding whether an individual will fit the culture of an organization and whether they have specific work-relevant skills.

The organization-based approach to selection raises a number of interesting issues the validation of selection methods. Traditionally, selection validation has involved measuring the job performance of the individual and relating it to selection instruments performance. If selection is done on the basis for membership in the organization and for long-term development and growth, it is not clear that how well an individual performs a particular activity or set of duties at a given point in time is a very good criterion for validation purposes. It also may be unreasonable to expect traditional validity levels for selection instruments. Indeed this change in selection appears to call for new and different

concepts of what constitutes an employee being an acceptable employee as well as new work on the classic criterion problem in the validation of selection instruments.

Pay the Person

Skill-based pay offers an alternative to the familiar job evaluation approach to setting base pay that appears to be a good fit with a competency-based approach to organizing (Lawler, 1990). The skill-based approach focuses on individuals and pays them according to the skills they have. It starts from the assumption that individuals have value not jobs. Blocks of skills that are needed by the organization, rather than jobs, are the basic units of analysis. In simple skill-based pay systems, employees may be rewarded for learning what in essence are multiple jobs. For example, members of a factory work team may be given a pay increase for each machine they learn to operate as well as for each support job they learn, such as inspection, maintenance, and material handling. In complex work systems individuals may be rewarded for learning more abstract collections of skills. For example, in information services organizations employees may be rewarded for learning hardware-related skills, programming (software) skills, and skills in consulting to line managers, rather than for performing a single job within one of these areas. Skill blocks in skill-based pay systems become analogous to jobs in job-evaluation systems. Skill evaluation, appraisal, certification, pay rates, and training all must be closely tied to skill blocks in order for these systems to work effectively. This is done to insure that the organization is receiving value for its investment of wages, training, and other resources.

The use of person or skill-based pay systems raises a number of interesting research issues (see e.g. Jenkins, Ledford, Gupta and Doty, 1992). At the heart of any skill-based pay system is the assessment of the persons current skills and capabilities. It is a somewhat different problem than the classic performance appraisal problem of deciding how well an individual has performed during a particular performance period. It asks a

similar but different question, "At what level can the individual perform a particular activity, and what competencies does the individual have?".

Some of the research on performance appraisal is relevant to understanding the assessment of skills, but it also opens up a number of interesting research questions concerning who is in the best position to judge the competencies of an individual and what type of process should be used to judge individual competencies? One possibility is that this will lead to an increase in the use of peer ratings, technical expert judgments, and tests in determining pay and that the opinion of a particular manager or supervisor will be much less important. In many cases the supervisor is not in the best position to judge the performance capabilities of an individual. Thus, the manager's job may well become one of gathering data from knowledgeable individuals about the capabilities of an individual rather than making unilateral judgments about how well the individual has performed. In any case, there appears to be a number of interesting research and theoretical issues that are involved in assessing the skills that are part of competency-based pay systems.

Historically a great deal of research in the area of pay was done on job evaluation systems. Research studies focused on whether individuals could agree on the relative attributes of jobs and a great deal of research was done on how jobs can be priced to the market. This work is essentially irrelevant to pay systems which focus on individuals and their skills. The key issues in this approach concern how skills can be priced in the marketplace. Very little work has been done on this issue so far. It is a complicated one of course, because pricing individual skills is not enough. Individuals need to be paid and individuals often have unique configurations of competencies--some of which an organization may wish to pay for, and others of which it may not wish to pay for because they are not particularly relevant to its desired performance competencies or capabilities. The research challenge is to first, develop ways of evaluating skills, then to be able to measure the worth of the skills to the organization, and finally to take them to a market and

price them based on the market value of individuals having particular configurations of skills.

Pay for Performance

The key pay for performance issue in any skill-based system concerns how well individuals use their skills during a particular time period. In some cases, particularly where individual job enrichment is the preferred approach to job design, this may simply involve looking at how well somebody performed a particular job. More commonly, however, it involves looking at what individuals contributed to the performance of their team. Where this is measurable, it may make sense to tie part of a person's compensation to their individual contribution to their teams performance. This raises some interesting measurement issues, since in a team environment, it may not be obvious what role particular individuals play. One solution is to use peer ratings that appraise how much individuals contribute to team performance and to tie pay to these ratings. The alternative to individual pay for performance is not to measure individual performance and to base pay on team performance, business unit performance or organizational performance.

Gainsharing plans are a classic example of a pay for performance system that appears to fit well in a team environment. It rewards the entire team based on its performance and does not use individual performance measures (Lawler and Cohen, 1992). There has been a considerable amount of research on group pay for performance systems. This work includes the research on gainsharing as well as the research on small group incentive plans, stock ownership plans, and profit-sharing plans (Lawler, 1990). It generally shows that these plans are less effective motivators than are individual pay for performance systems. This has led to the argument that even with teams it may be important to pay for individual performance.

It is quite possible however, that the research which has been done in job based organizations is not applicable to organizational situations where competency-based

systems are utilized. For example, the finding that profit-sharing is not as powerful an incentive as individual pay for performance follows directly from the low levels of control that individuals have over the performance of the units of which they are part. In a more skill-based environment in which all individuals operate in teams, it may be that individuals will feel a greater sense of control over team performance and be quite motivated by team based performance pay. Similarly, gainsharing and profit-sharing may be particularly attractive to individuals in these types of organizations because they realize that individual pay for performance does not fit the organizations design and that it, better than individual pay for performance, fits the design of the organization.

Training and Career Development

Training and development are critical to the success of a competency-based approach to organizing. Particularly when individuals are paid for skill acquisition, they place a great emphasis on being able to learn and develop their abilities (Lawler, 1990; Jenkins, Ledford, Gupta, and Doty, 1992). This means that organizations need to have a well-developed system for providing training to individuals and to make time available so that individuals can take advantage of the training. An important piece of the training needs to be a skill certification process which assures that individuals not only develop the skills the organization needs but assures that they maintain them as long as they are needed and are paid for.

A competency-based approach to organizing raises a number of interesting research issues about training and development. They include questions concerning how much training and development individuals will want and how much training can they usefully receive. Training individuals in multiple skills raises a variety of issues concerning retention, obsolescence, currency of skills, and of course, the possibilities of negative and positive transfers of learning across different skills. There are also some interesting issues concerned with the employee involvement approach to management. The argument in this

approach is that individuals need a broad set of business understanding skills (Lawler, 1992). Unanswered, however, is how much skill development is needed, and more specifically, what kinds of business skills are needed in order for organizations to operate with a high-involvement approach. Overall, a great deal of research is needed on the development of skill set models in order for organizations to understand the kinds of skills they need to develop and the challenges and costs involved in developing them.

The career systems in organizations are also likely to change in a skill-based approach. Rather than being a set of hierarchical, upward moves, careers need to be conceptualized as involving multiple skill acquisition tracks. For example, a career track might involve someone becoming more and more expert in a limited set of skills while a managerial career track might involve the acquisition of a broad understanding of how the organization operates and training in various types of managerial activities.

The decreased availability of hierarchical careers when combined with the need for individuals to develop particular competencies and in many cases to continue to change the competencies that they have, raises a number of interesting research issues. Particular interesting are questions concerning the career concepts of individuals and the types of individuals that will thrive in competency-based organizations. It seems likely that the classic hierarchical striver whose idea of career success is upward mobility will not be attracted to a competency-based organization that stresses horizontal skill acquisition. An interesting research question, however, concerns whether the opportunities for continued skill development and potentially higher pay can act as a substitute for hierarchical promotion for many individuals. The answer to this question has significant implications for the kind of individuals that should be selected to work in a competency-based organization, and for the kind of turnover rates that can be expected in more competency-based, less hierarchical organizations.

Strategic Human Resource Management

The idea of being able to identify the key competencies an organization needs for competitive advantage and designing systems that will develop them in an organization raises a variety of effectiveness issues (Schuler, 1992). Perhaps the most basic is whether this is practical in rapidly changing environments. A slightly different question concerns where the location for this activity should be. Should it in fact come from a centralized hierarchical position or should it develop in a more bottoms up way from individuals who are aware of the business strategy and the direction of the organization. There is also the issue of how much the strategic orientation of the business ought to be influenced by the availability of individuals with key competencies. It does not make sense for an organization to launch a particular business strategy if it is unlikely to be able to develop the competencies to implement it and bring it to fruition. This raises a number of issues around how the feasibility of particular strategies can be assessed and what role human resources management professionals should or can play in this analysis.

Potential Effectiveness of a Competency-based Approach

There is only one compelling reason for adopting a skill or competency-based approach: to create a competitive advantage, because it leads to an organization performing better. The writings on organizational competencies partially address why it can provide one. They point out that ultimately the best competitive advantage in global markets is the performance capability of the organization. Critical to developing and maintaining performance capability is the skills of the individual employees and of course how these skills mesh to support a particular organizational competency and strategic direction. By moving to a skill-based approach, organizations can create systems that proactively support the development of particular kinds of competencies. In a more traditional job based approach, in which organizations simply worry about filling jobs, the skill competencies of individuals and in the organization receive less focus. They cannot

be proactively managed the same way they can in a system that is designed to support individuals developing particular competencies (Lawler and Ledford, 1992). At this point, research is still needed on how competency based organizations can best be managed as well as on whether and when they can provide a competitive advantage.

In addition to helping organizations develop particular technical competencies, a skill-based approach may help an organization develop individuals who are suited to particular management styles. This is particularly apparent in the case of management styles that emphasize total quality management and employee involvement. These approaches require individuals to have skills that are different than those that are normally required in a command and control management approach. A person-based approach can directly target the learning of these new skills to help insure that individuals have them. This, in turn, may allow the organization to operate with a management style that can provide a hard-to-duplicate competitive advantage, that comes from the organization's ability to operate flexibly with integration but with little hierarchy and few organizational control systems (Lawler, 1992). This type of advantage often is sustainable because it is difficult to duplicate. Indeed, even if organizations do decide to change, it may take them years before they can adjust their organizational systems to an approach that emphasizes skills and a new management style.

The competency-based approach may aid greatly in attracting new employees and retaining existing ones. The model could offer benefits, such as relatively high wages and opportunities for advancement, that most current and prospective employees consider attractive. These advantages may be especially appealing to employees in an era of limited advancement opportunities. Moreover, the skill-based approach should prove an especially strong inducement for the very types of employees that organizations using the approach most want. For example, not all employees are equally interested in working for organizations with a high involvement culture. Personal success in a skill-based environment may require considerable employee flexibility and initiative. Employees who

are oriented toward learning new skills, taking on new responsibilities, and assisting in the management of the business should be the ones who are most attracted to the skill-based model. These are the types of employees who are expected to be best suited to a culture of high involvement, but little research exists to confirm this view.

Professionals may find skill-based systems especially attractive. Northern Telecom, for example, experienced sharply lower turnover when it adopted a skill-based pay plan covering several thousand field technicians and engineers (LeBlanc, 1991). Professionals tend to be keenly interested in increasing their expertise, thus a skill-based pay system pays these employees for what they want to do in the first place. Greater expertise also affords the employee some measure of professional security in an era when fewer and fewer employees can expect to spend their entire career in one company. The more the employee knows, the greater the employee's chances of having some expertise that prospective employers value.

Reducing turnover and increasing retention is an advantage to many organizations. Replacing employees who leave an organization is costly. Studies indicate that replacement costs typically run to the equivalent of six to nine months of the employee's salary, once severance, recruitment, training, and socialization costs are added up. These costs can be minimized only if labor is very available and the work is so simple that new hires can do it with minimal training.

There are a number of possible limitations and potential pitfalls associated with using a competency-based approach that need to be researched. At the individual employee level, it is clearly a high-cost approach since it does not offer the economics of scale that are available in systems where many individuals hold the same job. An organization may invest considerable time and money in individuals to make them more valuable. Which in turn may lead to them being more highly paid. Unless the additional skills that they acquire allow them to add more value to the product than employees in

competing firms, this can create a situation where an organization has higher overall wage costs than their competitors.

Perhaps the biggest obstacle in moving to a competency-based approach is the amount of change required. It is clearly much easier to establish it in new organizational settings than it is to change an existing organization. Some of the most successful systems are in new plants that have been designed from the beginning to have employee involvement oriented management styles and to emphasize skills and skill development (Lawler, 1992). In existing organizations, the entire human resource management infrastructure needs to be altered or eliminated. This is clearly a large task and may be resisted by the many employees who are comfortable with traditional job descriptions, job based-pay, and the bureaucratic approach to management. Indeed, many of them may not have the capability of functioning effectively in an organization that emphasizes the skill-based approach. This may be expected to lead to a difficult initial period when the approach is installed and, potentially, result in an increased rate of turnover. At this point the actual size of the problem is unknown because there is little research which has focused on the cost of such a conversion and on its outcomes.

Conclusion

The convergence of a number of forces is likely to create more competency-based organizations in the future. The development of organizations that use competency approaches promises to raise a number of research opportunities concerning their development, implementation, human resource management systems and ultimate effectiveness. Thousands of research studies have been done that assume a job-based approach to organizing. They clearly can make some contribution to the understanding of what is likely to be effective in a competency-based organization and they can also contribute useful guidance in developing many of the practices that are needed to make competency-based organizations effective. For example, group pay for performance

systems and a host of other specific practices are still relevant. However, new theory and research are needed. Organizing around individuals and their skills clearly represents a different paradigm and as such requires new systems and it raises a host of new issues concerning what is effective and how individuals will respond. Particularly intriguing is how individuals can be allocated against particular task and activities and where they will find their sense of purpose in an organization that is competency-based.

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