

# Organizational Competencies

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“A focus on organizational competencies is more critical to achieving team alignment, effective execution and the right allocation of scarce resources than is a focus on strategic goals.”

# Managing Organizational Competencies

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The concept of organizational competencies is one of the most misunderstood and misapplied concepts in organizational management. Organizational competencies are often thought to be simply employee skills rather than the compelling cross-company core competencies that drive integrated business execution and management alignment.

Some of the greatest companies such as 3M, Google and Pixar have come to understand the power of identifying competencies and realigning all elements of the business to support them. The result is a clearly aligned team with prioritized focus on executing the company's core strategy.

## Misapplied and Misunderstood

Organizational competencies is a term that has been used in the world of performance management for many years. It is routinely used by human resource professionals and by organizational change consultants to refer to the universe of employee skills that the company must have in order to achieve their plans.

Many companies define the required competencies based on the goals that are identified within the context of the strategic plan. A competency map is developed over time for each part of the business and, in sophisticated applications, managers can develop methods for tracking essential skill gaps in order to ensure that the organization is staffed appropriately to achieve its mission.

We believe that the concept of organizational competencies as traditionally applied is far too narrow to ensure that an organization is positioned to meet its strategic plan goals – let alone to meet and beat the competition.

## More than just skills . . . a new definition.

A broader definition of organizational competencies focuses on the first word – “organizational”. Under this definition, the organization becomes the focus. It is the organization as a whole that must perform – not just an individual employee. And so the definition of organizational competencies itself must change.

Under this approach the organization must step outside itself and evaluate, conceptually, what things, as an organization, it does on an ongoing, systemic basis that enables it to achieve its mission. Generally, but not always, the organization will have more than one such competency – but not many of them. In this context we can define organizational competencies as the combination of required skills,

necessary information, appropriate performance measures and the right corporate culture that the company requires to achieve its mission.

**Figure 1. Organizational Competencies are Not Just Skills**



### A few examples . . .

Arriving at the right competencies often is an iterative process. A classic example is 3M Company – formerly Minnesota Mining and Manufacturing. 3M has become famous for their ability to foster a culture of innovation – which brought us Post-It Notes among other essentials in our daily lives.

#### **Innovation**

For 3M however, as with many companies, innovation doesn't come easily. Over time they came to appreciate the critical importance of fostering a culture of innovation as the way to ensure that they could reliably produce a stream of practical inventions that could be converted into commercialized products by the other parts of the company. And so they structured a large part of the company around the things necessary to stimulate innovation.

Famously, the company ensures that all engineers take time out of the workweek to advance creative projects of their own devising. When engineers see an opportunity they can then apply internally for funding – much like a venture capital model – to move the projects to commercialization. As they progress through a series of benchmarks they attract increasing levels of corporate sponsorship and support.

Google has also determined that innovation is a critical competency for their success and has designed the entire business to support it. But innovation is not something that individual employees can make happen through a defined skill set. Instead, innovation can only be achieved across the company if all parts of the company contribute.

### Major Donor Cultivation

For a major non-profit that must significantly elevate its ability to raise money – a major organizational competency is “managing the major donor cultivation process, end-to-end.” While fundraising generally is important for all organizations, this particular non-profit realized that effective and timely execution of their strategic plan required that major donors become a far more integral part of their fundraising.

The role of major donors went beyond just giving money, as they participated in all aspects of the organization’s activities, so having the entire organization contributing in a systematic way to the end-to-end cultivation process was critically important.

In the past, the Development Department was primarily concerned with managing major donor relations. Going forward the organization will ask how every aspect of operations can and should contribute to and help drive the process. So information systems will be changed, finance and accounting reporting systems will be changed, telephone escalation procedures will be changed and so forth.

### Competitive Differentiation

A major media advertising company realized that they were selling what was becoming a commodity product. Their competitors were taking business away by differentiating their products in various ways. The company realized that having the entire organization focused on finding ways to differentiate what was basically a highly commoditized product was essential to their success.

So they had the finance department change the way they managed payment processing and payment inquiries, they changed the look of their invoices and payment details, they changed the way they handled telephone inquiries and they changed the timing of payments. The production department completely changed the way they provided support for small advertisers and the sales department bundled products and services differently to offer a major distinction from the competition – all of this was entirely customer centric and customer focused – **and differentiated**.

### Creativity

Pixar has become a prime example of how a company can marshal all of its resources in support of an organizational competency. In the case of Pixar – the digital animation movie production studio, in the interest of creating a “culture of creativity” that they have deemed essential to their art and to their success as a business.

Pixar has designed a headquarters building that fosters creativity, it offers professional development classes to foster creativity, it encourages iconoclasts to foster creativity, it enables animators to design their own offices to foster creativity, they have designed production software that supports individual creativity while increasing efficiency and it organizes and runs meetings in a way that fosters creativity. Everything about the organization is run in a manner that supports the culture of creativity.

### Product Delivery Excellence

Proctor and Gamble for years has been a company renowned for its ability to create great products and deliver them to the market in most cases in virtually flawless fashion. If we were to look at one of their required organizational competencies it would involve continuous improvement and excellence in product delivery. The company has built their entire organizational culture around training of new management in the P&G way in order to maintain continuous improvement.

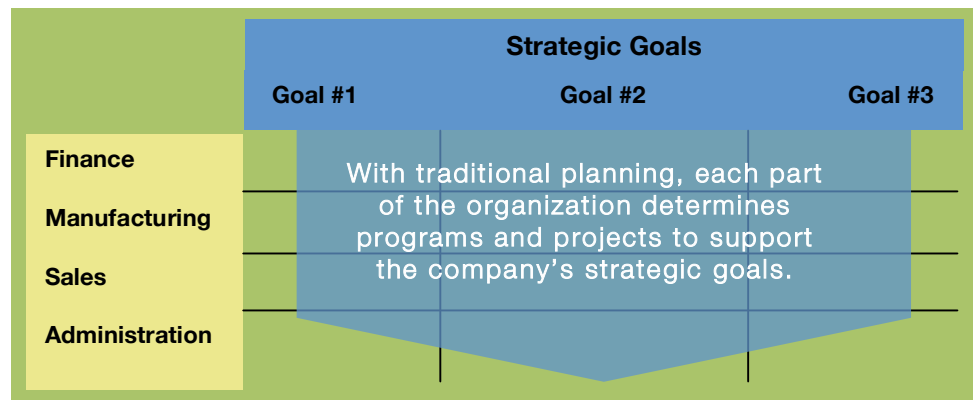
Traditionally P&G was known for its expertise in consumer advertising which the company used to dominate market segments. With the rise of the Internet, however, consumers began to look to online information resources, peer groups, web-based reviews and online advertising for better and deeper product information. When P&G brought in a new senior marketing manager he realized that the company was virtually ignoring one of the most important new trends in consumer marketing.

Doing some brutal self-examination he recognized that P&G was experiencing a **critical gap in a key organizational competency**. The choice was to try to learn from within or learn from the best. So P&G approached Google to arrange an employee swap. P&G employees would work at Google to learn about online marketing and Google employees would work within P&G to learn the basics of product development and consumer research.

### Competencies - more important than Strategic Goals

Most organizations manage implementation of their strategic goals by having each department – or part of the business – create operating plans that describe how they will support each goal. Usually this is a mix of “bottom up” and “top down” planning. It looks like this:

Figure 2. Traditional “Alignment with Goals”



We believe, on the other hand, that effective implementation of competencies is, in the final analysis, more important than strategic goals. If organizational competencies are properly managed then it is more likely that the team will identify the appropriate strategic goals and that all parts of your organization will be tightly aligned.

The process of determining how each part of the organization can contribute to each competency will cause all parts of the team to understand how they interrelate. By looking at how key competencies drive down through the business, each part of the organization is challenged to view its role differently.

For example, with reference to Figure 3 below, if you imagine that innovation is a core organizational competency and if you imagine having a manager who is assigned to be responsible for managing innovation across the company, then that manager will inevitably require different things from each department than if the department managers independently are asked to define their contributions.

In our experience, the nature of support each department will provide to the operation is likely to be very different – or at least broader in scope – if the “Vice President of Innovation” is asked to determine what each department should provide to the organization. In addition, the departments will have a very different view of how they interact if they are asked to support such cross organizational competencies rather than specific, operationally-focused strategic goals.

**Figure 3. Organizational Competencies Drive Execution Planning**



### Managing the Competency Gap

Management of organizational competencies and the “Organizational Competency Gap” is critical to ensuring that the company’s systemic risk level does not increase. While many companies have systems in place to identify “competency gaps” e.g. missing skills – it is only those companies that are able to see competencies as transcending skills that are able to manage operational risk in a systemic manner.

#### Identifying the gap

Once the company has a clear understanding of its required organizational competencies, management can then dissect them to determine what combination of employees, skills, processes, systems, facilities, partnerships and so forth are necessary to maintain

organizational effectiveness. This “itemized list” can then be monitored to ensure that the company’s overall risk profile is maintained.

### Allocating scarce resources systemically

Most managers have limited themselves to managing just to revenue objectives. However, in order to achieve real competitive advantage it is becoming more important for managers to allocate scarce resources to maintaining organizational competencies and systemically maintaining a target level of **risk adjusted revenue**. Thus organizational competencies play a critical role in budgeting to maintain and enhance a key element of competitive advantage.

### A Culture of Alignment

If organizational competencies are used systemically through the business to drive decisions about strategy execution and allocation of resources, the consequence is a culture that fosters clear alignment of the team around those competencies that are critical for the organization’s success.

When the strategic operating environment changes, as it inevitably will, the company is better prepared to reprioritize programs and projects to maintain a grounded alignment with the things necessary to support the competencies that build ongoing operating success.

With a focus only on strategic goals, the company is more likely to adapt to changes in the environment with new objectives driven by different parts of the business and not aligned with the overarching requirements of cross-corporate competencies for success.

