CREATING
A
CULTURE
OF
COMPETENCE

- Identifies competencies critical to success

- Integrates corporate culture and competency

- Makes competency-based selection work

- Develops competency-based performance

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Acknowledgments

This book is the result of the contribution of too many people to mention, the managers and employees of all the companies through whom I have learned about how organizations and people work. I would be negligent, however, if I did not mention those who played a key role in the development of our competency methodology.

I deeply appreciate all the employees, past and present, of Zwell International and Metamorphics. They have been willing guinea pigs for every experiment and every instrument I have wrought upon them, and their support has allowed this work to build. We have learned many lessons together about managing organizations and people.

In particular, Jen Rosen and Naomi Wilson, employees of Metamorphics, have tirelessly contributed to the development of the concepts and applications presented in this book. They, along with other Metamorphics employees—Linda Burridge, Cory Jones, Allison Hegedus, Catherine Munier, and Christina Fradelos—also spent many hours editing and improving the book. The employees of Zwell International—especially Leslie Nair, Mike Grant, John Francis, and Corey Haas—all contributed to the experiences in executive search that led to this book. Paul Cholak contributed extensively in terms of both content and formulation. Other readers of the book included Jesse Elliott, Leo Zwell, David Jewell, Jim Duke, and Raissa Trend.

A number of clients encouraged me to apply myself fully to help them and their organizations, and their support was critical to the development of this material. These clients include Monica Rottman, Larry Harkness, and especially Tom O'Donoghue from American National Can. Other key clients have been Tom Gregory, Bill Morro, and Michael Allen.

I am grateful for the patience of my wife, Knoxie, and my children, Daniel and Rachel, who tolerated my disappearance in front of a keyboard for too many evenings and weekends.

Finally, I owe this book to Bob Wright, president of the School for Exceptional Living, who has coached and mentored me over the past 10 years. Bob coached me into my vision for Zwell International and Metamorphics, and has helped me learn countless lessons about the fundamentals of people and organizations that apply to every concept and application in this book. I dedicate this book to the common vision that I share with Bob: that of a business world in which people are fully supported to learn, grow, and work together for the benefit of their customers, the employees, themselves, the shareholders, and all humanity.

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Introduction

This book is about performance and satisfaction. It is about helping organizations and people succeed in accomplishing their desires. It is about building a *culture of competence*, an organizational system that encourages, motivates, and develops people to work cooperatively to accomplish the organization's purposes and objectives in accordance with its values. This is also a book about improving organizational performance and achieving superior business results.

- Research conducted by John Kotter and James Heskett[1] found that over a 12-year period, companies with high-performance cultures outperformed their more average peers by:

  - *Four times* in revenue growth.
  - *Eight times* in employment growth.
  - *Eleven times* in stock price growth.
  - *Seven hundred and fifty times* in net income growth.

- A difference of one standard deviation in the performance of salespeople resulted in a **120% increase in revenue**.[2] In a study of a group of 44 companies in the Southeast, superior salespeople sold an average of $6.7 million, while average salespeople sold an average of $3 million. The average total compensation for those superior salespeople was only **$20,000 more** than that of the average salespeople.

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[1]Kotter, J. P. & Heskett, J. L. *Corporate Culture and Performance*. New York: The Free Press, 1992, 15.
[2]Adapted from Hunter, J. E., Schmidt, F. L., & Judiesch, M. K. "Individual Differences in Output Variability as a Function of Job Complexity." *Journal of Applied Psychology, 75* (1990): 28–42.

- Among 222 public companies analyzed, those with high-performance work practices (advanced employee feedback systems, improved selection techniques, quality programs, etc.) had an **increased public market value of between $35,000 and $80,000 per employee** (one standard deviation).[3]

High-performance cultures are not created by magic, though it may seem so without an understanding of how they are created. Why did GE flourish and Westinghouse get broken up and sold off? Why did Boeing thrive and McDonnell Douglas get acquired? Why does the San Francisco 49ers football team have winning seasons year after year and the Chicago Bears do not?

How to lead organizations to peak performance is a question that every business leader should be trying to answer. In particular:

- Is there anything that really predicts performance?
- Why are so many smart people such mediocre performers?
- Why do managers and employees complain rather than fix the problem?
- Why do managers hire the wrong people so often?
- Why don't managers make their lives easier by developing their subordinates?
- Why are so many managers afraid of talking honestly and directly to their subordinates?
- If they want more money and better careers, why don't more employees take responsibility for improving themselves?

At first glance these inquiries seem like the pesky questions young children ask: "Why is the sky blue?" "Why is an apple bigger than a plum?" After patience has worn thin, parents finally answer in exasperation, *"It just is!"*

But suppose these questions can be answered. Suppose . . .

- You knew what predicts performance?
- People improved their performance and really worked at their full capacity?
- Managers and employees fixed problems instead of complaining about them?

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[3]Spencer, L. & Morrow, C. *The Economic Value of Competencies: Measuring the ROI.* Speech presented at the Third International Conference on Using Competency-Based Tools and Applications to Drive Organizational Performance, Chicago, Illinois, September 1996.

- Managers selected and hired people who were strongest in the behaviors, traits, and qualities that determine successful performance?
- Managers really cared about developing their subordinates?
- Managers talked honestly and directly to their subordinates?
- Employees took responsibility for improving themselves?
- Managers sought and used feedback to understand their strengths and weaknesses?

This book is intended to explain the why's and how-to's related to creating organizations in which managers and employees fit these descriptions.

My own career began in academia, culminating with a Ph.D. in anthropology from Yale University and a stint teaching at Rutgers University. After a few years of consulting, I became an executive recruiter, initially filling searches for computer and office equipment salespeople. Nineteen years later, I fill searches for CEOs and other senior management positions. I have managed my own search firm called Zwell International since 1982.

In the first 10 years of my search career I practiced executive search like every other recruiter, treating it like a matchmaking function. My goal was to find candidates whom the client would like and want to hire (and vice versa)—to get a match. I had no idea what made a successful performer, and was primarily concerned with completing a hire—the basis on which recruiters are paid. By the late 1980s I realized that there were huge gaps in my process and the process of the other recruiters that I knew. The selection process that most companies used did not do a very good job of hiring superior performers.

In 1990 I was encouraged by Bob Wright, president of the School for Exceptional Living, to bring the best of social science to the executive search field. I began researching and developing assessment tools for analyzing corporate culture, personality, job fit, chemistry, and competency. I discovered that there was important and relevant research that applied to the processes of selection and hiring that was not being used by anyone I knew in executive search. With the permission of my clients I developed and tested one instrument after another, seeking ways to help them identify the characteristics of individuals, teams, and organizations that determine success.

When I developed a process for applying the concept of behavioral competencies to executive search, the response among my clients was phenomenal. Behavioral competencies, the traits and characteristics that differentiate superior from average performers, have been shown to be significantly more predictive of performance than aptitude, skills, or experience. Zwell International not only used competencies to assess candidates

in the search process, we also trained our clients to use them to evaluate candidates. In addition to giving us enthusiastic feedback, our clients started using the process for *all* their hiring. I developed a systematic process for installing company-wide competency-based selection systems. A competency-based performance management system followed, based on an obvious premise: If competencies are the best predictors of performance we know, they should be used throughout the employment life cycle—for hiring, appraisal, development, succession planning, high-potential tracking, training, and career planning. They should also be a key determinant of strategies and tactics for corporate culture development, organizational change, and corporate reengineering.

In 1998 I started a new company, Metamorphics, to develop CompetencySuite™, an integrated set of Internet applications to make competency-based HR practices simple and easy to use and administer. Metamorphics has translated the competency-based paper-and-pencil tools we developed into computer-based tools that can be delivered over the Internet. Eighty to 90 percent of the senior human resources executives for large companies know the value of competencies; their key question is how they can make them work. That is the purpose of CompetencySuite.

Although I have quoted third-party research and used some examples from companies where I had no direct role, the vast majority of this book is based on my personal experience and/or research activity. Wherever I have used the words "Zwell," "Zwell International," "Metamorphics," "I," "we," or "our," I am referring to my personal experience and involvement.

Creating a Culture of Competence is divided into two parts. Chapters 1 through 5 focus on understanding the relationship among the three cornerstones of high-performance organizations: culture, competency, and leadership. The corporate culture of an organization determines the rules and norms that shape employee behavior. Employee competence determines the impact employees have on organizational performance. And leadership shapes both corporate culture and employee competence. These chapters explain how culture, competencies, and leadership interact to determine organizational success.

Chapters 6 through 14 provide the how-to section of the book, detailing a step-by-step, pragmatic approach to creating that culture of competence. This section includes chapters on using vision and competencies for cultural transformation, creating competency models, and using competencies for selection and performance management.

Competency-based practices can work. Over an eight-year period Zwell International transformed from a typical transactional search firm comprised of traditional, self-centered recruiters to one in which its employees

are committed to serving its clients, performing excellent work, and increasing their competence. In four years, revenue per employee more than doubled. Competency-based selection, performance management, and cultural change were the tools we used to implement the transformation.

Creating a Culture of Competence

This book is about creating an organization in which employees are learning and growing, working together, and doing their best. It does not discuss specific structures to improve particular organizational areas or functions, such as quality circles, *kaizen*, self-directed work teams, and so on. Instead it concentrates on the development and implementation of processes that enhance competency in the organization: the use of vision to provide organizational and individual motivation and direction, the hiring and selection process by which people are brought into the organization and promoted, and the process of competency development. It is our view that managers and employees strong in the critical competencies and in the right culture will have little trouble determining the particular structures and systems needed to maximize organizational success.

It is the job of leadership to analyze the current state of the organization and its environment, envision the ideal state, and define a set of pathways to move the organization toward the ideal. It is a worthy journey for any leader to undertake, and one of the most satisfying. For at the end of the day, there is little more worthwhile than helping people improve themselves, work together to satisfy the needs of others, and at the same time greatly improve organizational performance.

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What Makes an Organization Successful? The Role of Culture and Competence

The question of how to help their organizations succeed is one that senior executives ponder over daily.

Every organization has characteristics and features that drive managers crazy and keep them awake at night. If managers allowed themselves to complain out loud, here are some of the things they would say:

- Why aren't our employees more motivated?
- Why do they keep making the same mistakes?
- Why don't they think about how they can do their work better?
- Why aren't we closing more sales?
- Why doesn't someone else come up with ideas to solve problems?
- Why don't people do what they say they're going to do?
- Why don't they work harder?
- Why am I doing my work and their work, too?
- Why don't our managers work together to accomplish goals instead of protecting their turf?

If the readers of this book were to fulfill my vision for them, they would change their organization, managers, and employees in ways that would diminish the causes that give rise to these questions. They would feel more satisfied with themselves and their organization, as employees initiate the actions that reflect their vision.

A VISION OF ORGANIZATIONAL POSSIBILITY

The vision I hold of organizations is that they are dynamic, vital, nourishing places to work in which people set and achieve challenging goals and take responsibility for their own success. Employees go out of their way to satisfy their internal and external customers, act to improve quality, and learn and grow to become more satisfied and effective team members and employees. Employees engage in conflict constructively to reach sound decisions, and communicate openly and directly throughout the organization. They take initiative and seize opportunities for themselves and the organization, and act on their own to solve problems. They pride themselves on their innovation and their creative approaches to product and business development. They anticipate the consequences of different options and alternatives, and make decisions based on their analysis. In this visionary organization, employees are encouraged and supported to work at their highest potential, and succeed at doing so.

Managers in this organization lead by example. They display the aforementioned characteristics to an even greater degree than other employees. They are excellent motivators and developers of people, giving their subordinates constructive feedback and coaching to help them improve their performance. They help employees align themselves with organizational initiatives and objectives, and build organizational commitment through creative and continually changing methods.

Senior executives are strategic thinkers and visionary leaders who understand industry trends and develop long-term strategic plans based on the organization's strengths, weaknesses, and competitive position. They communicate a vision for the organization and the individuals in it that inspires employees to stretch themselves and work together to achieve the vision. They view the development of leaders as one of their most important job functions, and look for opportunities to expand managers' responsibilities and opportunities.

Finally, all employees, from the chief executive officer (CEO) down to the most unskilled workers, are committed to continually learn and improve themselves. They are known for their honesty, integrity, and personal credibility. People can be counted on to do what they say they will do. They

admit and take responsibility for their mistakes, and put themselves at personal risk to take stands based on their deeply held values.

As a consequence of the commitment, behaviors, and traits manifested by all its employees, the organization is recognized as the industry leader and universally respected for its integrity, values, and business success. Its retention rate is the highest in its industry, and it attracts quality candidates more easily than any of its competitors. It is known as a place where people work hard and morale is high.

THE THREE COMPETENCY CORNERSTONES SUPPORTING ORGANIZATIONAL SUCCESS

There are three cornerstones that form the foundation for organizational success:

1. The competence of its leadership.
2. The competence of its employees.
3. The degree to which the corporate culture fosters and maximizes competence.

By strengthening these cornerstones, organizations can improve almost every aspect of their functioning and come closer to achieving the vision described. To understand how these cornerstones interrelate, let us begin with the concept of culture.

Culture is defined as the way of life of a people that is transferred from generation to generation. In business, corporate culture is the way of life of an organization that is passed on through successive "generations" of employees. Culture includes who we are, what we believe, what we do, and how we do it. Most people are not aware or conscious of their culture: Culture is to people as water is to fish. Unless we have been exposed to different cultures, we are largely unconscious of our own. We maintain a set of beliefs, act in certain ways, and follow rules and customs, assuming that this way of life is the natural order of things.

When I speak on the subject of corporate culture, I sometimes begin with the following scenario:

Imagine that you are driving on a highway in the desert. It is completely flat, devoid of vegetation, and absent of any sign of civilization. You approach an intersection with another road, and you can see that there is no car in any direction for at least three miles. There is a traffic light at that intersection, and the light is red. Do you stop at the light?