People Capabilities: Aligning People with Strategies

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Abstract: In our work with client organisations we come across common issues relating to the failure to deliver business strategies. These symptoms often reveal an underlying problem: misalignment between the strategic goals of the organisation and the employees that work for the organisation. Professionals and academics agree that aligning employees with organisational objectives is critical for achieving strategic success. However, attaining and sustaining employee 'line of sight' to strategic goals is difficult to achieve in practice. Through our work with client organisations we have developed an approach which ensures that employees understand the organisation's strategy, and appreciate what actions are required to realise that strategy. This is based on the concept of people capabilities which combine organisational capabilities and people competencies to provide a meaningful way of aligning people with strategies. This paper provides the theoretical foundations of this approach.

Introduction

In recent years, increasing attention has been devoted to the role of human resources in facilitating the achievement of an organisation's strategic goals (e.g. Huselid, 1995; Lepak and Snell, 1999). In particular, professionals and academics have emphasised the importance of strategic alignment, the assumption being that the business strategy defines an organisation's human resource requirements (e.g. Truss and Gratton, 1994; Wright and McMahan, 1992). Empirical research in this area has generally focused on the alignment between human resource management (HRM) practices (e.g. recruitment, training, performance, reward) and business strategy. Yet strategic success is achieved through employee contributions, rather than the human resource management practices themselves (e.g. MacDuffie, 1995; Wright & Snell, 1998). This suggests looking beyond aligning HRM practices with strategies, and focusing on the actual human resources (i.e. the employees).

The phrase 'line of sight' is often used to describe the alignment of the individual employee with the organisation's strategy (Boswell, 2006). Boswell and Boudreau (2001) conceptualise line of sight as 'employee understanding of an organisation's strategic objectives and how to contribute to those objectives'. The basic premise is that in order to translate strategic goals into tangible results, employees must understand the organisation's strategy, and accurately perform the actions required for realising that strategy (Boswell & Boudreau, 2001). The two components

Figure 1: Employee Alignment with Strategic Objectives

Source: Adapted from Boswell & Boudreau (2001)

– depth of understanding and accuracy of action – are depicted in Figure 1. The red quadrant represents line of sight – these employees understand their organisation's strategic objectives and help the organisation achieve those objectives. In the other quadrants, effective performance is questionable as employees may not understand the strategic objectives or how they contribute.
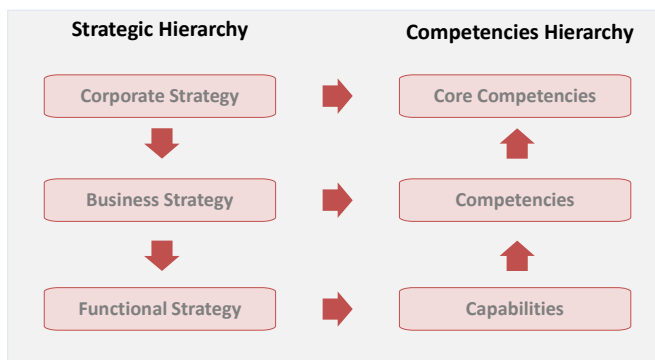
The importance of employee line of sight to organisational objectives is unquestionable. However, professionals and academics have identified practical difficulties with applying the concept (e.g. Boswell and Boudreau, 2001; Colvin & Boswell, 2007). This paper addresses these difficulties by examining the problem of how to link individual employee contributions to the overall strategic goals of the organisation. It presents a critical analysis of two bodies of literature which can be integrated to provide a framework for aligning people with strategies. Organisational capabilities describe what organisations need to be able to do to execute business strategy (Lynch et al, 2003); and people competencies describe the contributions that can be seen when a job is being done well (Mills, 2004). We discuss each body of literature independently, in order to draw on its insights and assess its limitations. We then integrate them to create a hybrid concept which provides an effective framework for facilitating employee line of sight to strategic objectives.

Organisational Capabilities

The literature on organisational capabilities has its roots in the resource-based view of the organisation, whose main argument is that an organisation is a bundle of heterogeneous resources and capabilities, which supports competitive advantage and explains the variance in performance across companies (e.g. Barney, 1991; Peteraf, 1993). However, one of the main problems with this theory is that it is examined with different terminologies by different authors. Terms such as 'organisational capability' (Lynch et al, 2003), 'dynamic capability' (Teece et al., 1997), 'core capability' (Leonard-Barton, 1995), and 'core competence' (Prahalad and Hamel, 1990) are used to capture what is essentially the same concept, that strategic success is based on the organisation's ability to exploit and nurture its capabilities or competencies.

The terms capabilities and competencies are often used interchangeably. They generally refer to what organisations need to do with varying degrees of excellence in order to execute its strategy (e.g. Lynch et al, 2003). Javidan (1998) distinguishes between different levels of competency, which correspond to the hierarchical levels of organisational strategy as depicted in Figure 2. At the functional level capabilities are narrowly focused on specific organisational functions, at the business level competencies concern the cross-functional co-ordination of capabilities, and at the corporate level core competencies relate to the small group of competencies that are widespread in the corporation. The key point here is that each level in the hierarchy encompasses a higher level of value added for the organisation.

Figure 2: Hierarchy of Strategies and Capabilities


Source: Javidan (1998)

Although the concepts associated with organisational capabilities have been debated for over 20 years, various writers have recognised that detailed knowledge of them is still limited (e.g. Wang et al., 2004; Collis and Montgomery, 2005). In particular, there is little information on how to apply the concepts (e.g. Javidan, 1998; Ljungquist, 2013). The most significant contribution is provided by Lynch et al (2003) who claim to 'lay out a systematic and sustainable process for targeting and building those specific capabilities that take a company's strategy to action'. Although the process acknowledges the significance of people, it fails to provide a workable framework for connecting strategy execution to employees at all levels in an organisation. This reveals the most fundamental flaw in the literature which is identified by Spanos and Prastacos (2004). They argue that since 'human actors are the basic building blocks of organisational capabilities' the organisation's effectiveness at attaining its goals depends on the ability to utilise the skills and knowledge of organisation members.

People Competencies

In recent years, there has been a growing emphasis within research and practice on the role of people competencies in contemporary HRM practice (Colin, 1997). The terms 'competency' and 'competence' are often used indiscriminately, however there are important conceptual and practical distinctions that fundamentally affect their relevance (Moore et al., 2002). Competency refers to the underlying characteristics of a person which result in effective performance in an occupational role (Boyatzis, 1982). Interest in competencies can be traced back to David McClelland's influential paper 'Testing for competence rather than intelligence' (1973), and the company he founded with David Berlew (McBer) to put his ideas into practice. Since that time, the use of competencies to support many HRM practices has become widespread. In the UK, an approach based on standards of competence has also become widespread. This was driven by the introduction of government policies on training and qualifications. In this approach, competence is expressed in terms of something that a person who works in a given occupational area should be able to do. Thus, whereas 'competency' is a person-related concept that refers to the dimensions of behaviour underlying effective performance (Woodruffe, 1991), competence is a work-related concept that defines occupational standards (Armstrong, 2001). Given the people dimension of competencies, this concept is the most relevant to aligning people with strategies.

Professionals and academics have adopted slightly different perspectives for defining competencies. Most accept that it relates to an underlying characteristic of a person, but this is expressed in terms that include traits, motives, personality, personal character, values, attitudes, behaviours, skills, and knowledge (Kim and McLean, 2015). A synthesised definition from experts who attended a competencies conference in 1995 is 'a cluster of knowledge, skills and attitudes' (Parry, 1996). This is expanded in the model provided by Lucia and Lepsinger (1999) – Figure 3. They argue that competencies should be expressed in behavioural terms which reflect innate abilities (aptitude and personal characteristics) and acquired abilities (skills and knowledge).

Figure 3: Competency Pyramid
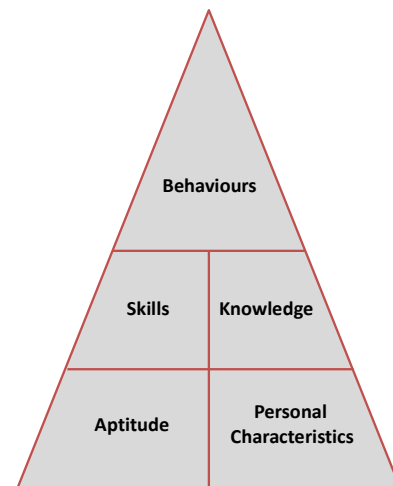
Source: Lucia and Lepsinger (1999)

The competency approach in organisations involves constructing a framework and using it as the basis for HRM practices. Although various generic competency frameworks have emerged, professionals and academics guard against the wholesale adoption of these (see Horton et al, 2002). They argue that the context is significant and should be reflected in the construction of organisation specific competency frameworks (e.g. Kilcourse, 1994; Robotham, 1997). The most common approach is based on the McBer competency methodology which comprises: (i) establishing the criteria defining effective performance; (ii) identifying a sample group of superior performers and a comparison group of average performers; (iii) collecting data through behavioural event interviews; (iv) identifying the competencies that distinguish superior from average performers; (v) validating the competency model; and (vi) applying the model to a range of HRM functions (Spencer, 1993).

Thousands of organisations throughout the world have implemented a competency based approach to HRM. The advantage of this approach is that it ensures consistency in identifying and measuring people quality at all stages in the employment cycle. Conversely, by determining what leads to superior performance, organisations may overlook the basic characteristics that are essential to performing a job, but are not causally related to superior performance (Miller et al, 2001). Also, the criteria for defining effective performance and superior performers are often based on managers' perceptions. This creates two difficulties for aligning people with strategies. It relies on managers' accurately translating strategic goals to effective performance; and it fails to advance employee understanding of those goals. As a consequence, people competencies are not a reliable means for facilitating employee line of sight to organisational objectives.

People Capabilities

Neither organisational capabilities nor people competencies provide a suitable means of aligning employees with strategic objectives. However, both concepts contain features that support the linking of individual employee contributions to the overall strategic goals of the organisation. Organisational capabilities provide the foundations for building the specific capabilities that take an organisation's strategy to action; and people competencies provide a common set of criteria which can be applied across the full range of HRM practices. Our approach integrates these features to provide a means of articulating strategies, so that their requirements can be embedded in HRM practices and be readily understood by employees at every level in the organisation. We termed this approach 'people capabilities' in order to reflect the integration of the two core concepts.

The people capabilities approach operationalises employee line of sight by defining what the organisation needs to do to execute its strategies, and what employees at every level of the organisation need to do to contribute to that. These distinct elements are reflected in the capability framework. The complete collection of capabilities for an organisation represents what it needs to do in order to execute its strategies. These may be formulated at different levels in order to reflect the different layers of strategy and employee exposure of an organisation. Core capabilities relate to the corporate strategy and reflect the strategic elements that all employees need to contribute to; common capabilities relate to businesses strategies and reflect the strategic elements that some employees across the organisation need to contribute to; and functional capabilities relate to functional strategies and reflect the strategic elements that employees within that function need to contribute to. Descriptions for each capability represent what employees need to do to varying degrees in order to contribute. Capabilities are divided into separate levels, which represent what

the organisation recognises as being meaningful degrees of demand. These levels are not linked to salary grades or job bands, but are allocated to relevant roles to clarify the demands expected of jobholders performing to a good (not exceptional) level. These demands reflect the underlying skills, knowledge and behaviours of a person which result in effective performance, and are expressed in behavioural terms to illustrate when a particular capability is being demonstrated at a specific level.

The people capability framework facilitates employee understanding of the organisation's strategies and how to contribute to those strategies. However, to achieve strategic success employees must also accurately perform the actions required for realising those strategies. By allocating the capabilities necessary to be effective in a role, people capabilities provides one set of criteria that can be applied across the full range of HRM practices. This has three main benefits. It provides an opportunity to agree a common language for describing effectiveness in an organisation which ensures that employees in different departments and at different levels have a common understanding of what good looks like. It provides an opportunity to achieve a high level of consistency when assessing people for whatever reason which ensures that employees are treated equitably across the organisation. Also, it provides an opportunity to raise the standard of performance for the organisation by setting a stretching (but not impossibly high) standard for good, and for individuals by developing themselves to achieve the standard. Through continuous exposure to capability-based HRM practices, employees will receive constant messages about expected behaviour which will ultimately influence the culture and performance of the organisation.

Therefore, the people capability framework provides the basic foundation from which to base HRM practices. Once it is in place it will shape behaviour in the organisation. Getting the framework right and integrating it into HRM practices is therefore crucial. There are so many techniques and organisational variables that it is not possible to state that any one particular approach to developing and implementing a capability framework is the right and only way. However, there is a sequence of general stages that we use to guide the process. This includes (i) defining the architecture of the framework; (ii) identifying the capabilities required for strategic success; (iii) describing the capabilities for employees; (iv) validating the capability framework; (v) allocating the capabilities to roles; (vi) integrating the capability framework into HRM practices. Using this sequence we have successfully produced people capability frameworks for many organisations. But, the tasks and techniques within each stage have varied to meet the particular circumstances and needs of each organisation.

Conclusion

Aligning employees with organisational objectives is critical for achieving strategic success. However, organisations have struggled to apply this principle in practice. People capabilities combine the concepts of organisational capabilities and people competencies to provide an effective framework for facilitating employee line of sight to strategic objectives. The people capabilities approach is distinctly different because it defines what the organisation needs to do to execute its strategies, and what employees at every level of the organisation need to do to contribute to that. By allocating the capabilities necessary to be effective in a role, people capabilities provides one set of criteria that can be applied across the full range of HRM practices. Through continuous exposure to capability-based HRM practices, employees will receive constant messages about expected behaviour which will ultimately influence the culture and performance of the organisation.

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