Capability Frameworks:
A source of competitive advantage

As organisations are required to adapt in response to economic, environmental, technological and political changes, increasing efficiency in managing human resources (HR) has become vital to organisational success. Using a capability framework helps to efficiently and strategically manage human resources by ensuring that all HR functions and activities are aligned and focused on what is important to the organisation’s success.

What is a capability framework?
A capability framework is a set of detailed and behaviourally-specific descriptions of the key behaviours, and underlying skills, knowledge, abilities and attributes, which are required for successful performance in an organisation, team, or job. It provides an indication of the behaviours that are valued and rewarded and ensures that these are aligned with the organisation’s strategic direction.

Capabilities have become a powerful tool for assessing the behaviours which contribute to high performance as they:

- are described in terms of observable behaviour;
- establish a common language to describe actions and behaviours;
- provide a way of expressing the culture, values and mission of the organisation, and
- establish clear expectations of behaviour.

Research into the validity of capability frameworks is now well-established, with over 35 years of documented literature. This research emphasises the importance of using capability frameworks as a standard part of human resource management.
A source of competitive advantage

Employees are now seen as a key source of competitive advantage as they are typically the single most important source of differentiation between competing organisations\(^2\). Ideas, processes, products and services can be copied; however what cannot be replicated is the source of the ideas – the people\(^3,6\). Greater awareness of this source of differentiation has created an incentive for organisations to invest in identifying and leveraging human talent\(^7\). It is essential that current and future employees have the required skills, knowledge, abilities, attributes and behaviours needed for the organisation to achieve its strategic objectives and outcomes\(^3\). Capability frameworks are an effective way to capture the capabilities needed to achieve organisational outcomes\(^8\).

Improving Business Performance

A capability framework provides a consistent approach to measuring and monitoring human resource deliverables against strategic business requirements. It forms a platform to integrate human resource systems such as recruitment, performance management, learning and development, and workforce planning\(^9\). Focusing human resource systems on the right capabilities improves business performance and ensures the highest return on investment (RoI)\(^10\).

When effectively implemented capability frameworks strengthen overall business performance in the following ways.

- They provide critical information for strategic workforce planning by highlighting which roles require critical capabilities and where there may be current or future skills gaps\(^11\).
- They improve selection decisions and reduce the risk of mismatching people to roles by ensuring that selection decisions are made based on the capabilities needed to be successful in role\(^10\).
- They strengthen the performance management process by providing an objective basis for feedback and performance conversations against the required behavioural capabilities\(^10,12\).
- They enable the identification of current and future capability gaps to allow for proactive and targeted people development\(^11\).

Delivering on the Game Plan

National Australia Bank created an Enterprise Leadership Capability framework driven by the need for a consistent approach to identifying and developing leadership talent. The framework enabled NAB to improve talent pool selection decisions and identify capability gaps. Targeted development ensures that NAB leaders develop a future skill set that delivers on business strategy and their Game Plan. People Measures partnered with NAB to review and refine the framework and used it as a benchmark for assessing high potential individuals in a complex assessment centre.

Workforce Planning

Strategic workforce planning is a priority for many organisations. Workforce planning involves the benchmarking of current capabilities against future strategic requirements. Capability gaps can then be proactively addressed and rectified through job redesign, restructuring, external recruitment, performance management and learning and development interventions\(^11\). A capability framework is crucial in this process, as it ensures that the required capabilities can either be developed or recruited and selected into the organisation\(^7\).
Succession

When planning succession within organisations, it is important that these decisions are based, not just on current performance, but also on future potential. The identification of the capabilities required for successful performance in key roles enables the potential of high performers to move into these roles to be assessed more objectively. It also provides individuals with a benchmark against which they can compare themselves when planning their career and professional development. Clearly identifying and documenting future capability requirements is critical to effective succession planning in organisations.

Recruitment

As an outcome of the high costs associated with poor recruitment decisions and employee turnover combined with the short supply of talented labour, it is crucial for organisations to make effective selection decisions. Research indicates that capability models enable the development of more robust and consistent recruitment methodologies which enable better selection decisions and in turn lead to a reduction in costs associated with poor recruitment decisions. The capability framework creates a transparent and practical process that reduces the subjectivity of selection decisions and increases the probability of hiring an individual who will succeed in the role and in the organisation.

Performance Management

Performance Management should not only focus on desired outcomes but also address the way in which these are achieved. A capability framework clearly sets out the behaviours required to be successful in a particular role and this provides a good basis for the performance management conversation. It focuses attention on the way in which the individual goes about achieving outcomes, not just the results themselves. This leads to more sustainable high performance and, when expectations are not being met, refines the focus on what needs to change.

Learning and Development

The application of effective learning strategies has the potential to increase employee performance by up to 20%. A capability-based approach increases the Return on Investment (RoI) of learning and development initiatives by reducing the short-term, narrower focus of traditional training activities on immediate needs, and focusing instead on long-term, strategically important capability development requirements. A capability-based approach to learning and development helps to retain key employees and contributes significantly to guaranteeing the long-term availability of a high-performing workforce.

Conclusion

In order for organisations to remain competitive in the current economic climate, they need to recognise the pivotal role employees play in the achievement of organisational results. Capitalising on the skills, knowledge, abilities and attributes that employees bring to their job is the key to success in many organisations. It is therefore imperative that the right employees are attracted, retained and developed. Capability frameworks represent best practice human resource management, where they clearly define the critical behaviours, and underlying capacities, which engender the superior
performance required to achieve and maintain a competitive advantage⁷.

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13 Teresa Comey (2004) Identifying leadership competencies to create a leadership succession plan process. Royal Roads University.