



COMPETENCE MANAGEMENT and HUMAN RESOURCE DEVELOPMENT

A theoretical framework for understanding the
practices of modern Finnish organisations



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Riitta Viitala



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Contents

Foreword.....	5
1 Introduction to the core elements of this book	7
1.1 A paradigm shift in business management.....	7
1.2 Finnish society in the context of expertise-based competitive advantage	10
1.3 An integrated system for competence management and human resource development.....	12
1.4 The aims and structure of this book	14
2 The role of business strategy and company values in competence management	16
2.1 Direction from vision and strategy	16
2.2 Values as a base for strategic choices	22
2.3 Intangible assets	24
2.4 Competence management	27
2.5 A company's core competencies.....	28
3 Competence-based human resource management	38
3.1 Strategic human resource management	38
3.2 The knowledge-base as the foundation for human resource development.....	44
3.3 Performance management	45
3.4 Competencies on the personal level.....	52
4 Human resource development	63
4.1 Strategic aspects of HRD	63
4.2 HRD paradigms and trends	65
4.3 Contents of HRD.....	67
4.4 Development discussions.....	69
4.5 Unsystematic workplace learning	72
4.6 Methods in human resource development	74
4.6.1 Individual based development activities	76
4.6.2 Group based development activities.....	83
4.7 Evaluation of human resource development activities	90
5 The link between knowledge management, competence management and human resource development.....	93
5.1 Knowledge and knowledge mapping.....	94
5.2 Knowledge management strategies.....	97

6	The learning organisation as a foundation for competence management.....	103
7	Postscript.....	108
	List of tables.....	110
	List of figures	110
	Appendix.....	111
	Appendix.....	111
	Bibliography	112
	Authors.....	120

Foreword

■ Today's organisation is increasingly an expertise-based organisation. And today's organisation, also a manufacturing organisation, is increasingly a service organisation. Both of these trends place special emphasis on people, their competencies, and the competencies of the entire organisation.

Organisations have actively started to develop operating models and practices to meet toughening competence demands that, moreover, need to be developed at an ever faster pace. In the academic world, too, researchers have increasingly started to focus on theories and models that address corporate competence and human resource management and development. Academic research and company practices have, however, partly been separate from each other and proceeded according to their own agendas.

In this book, we bring together several theories and the results of our own research in order to provide a comprehensive overview of the most salient models and practices relating to competence management and human resource development. Our aim has also been to provide a frame of reference for understanding how progressive companies in Finland apply them in practice.

We have written this book especially for students and company managers involved in competence and human resource development, with the aim of providing them an overall frame of reference through which to gain a comprehensive understanding of the field, as well as ideas for applying the lessons of this book in practice. Moreover, we chose to write in English as we felt that international students in Finland did not have access to sufficient literature addressing established practices on these matters in our country.

This book has been an interesting challenge for its writers, in that it brings together the sometimes divergent views of its two authors. As such, the project was rewarding and also showed how two different writers, sometimes approaching the topic from different directions, could quite easily arrive at a joint understanding about the key challenges facing the field of competence management and human resource development today. We are also glad to note that this book makes extensive use of research made by 15 students of Helia University of Applied Sciences, which fo-

cused on various aspects of human resource management in Finnish companies and public sector organisations. Many thanks to the students for their excellent theses.

We also wish to thank the Foundation for Economic Education, which provided financial support for the student projects and the publication of this book.

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Helsinki and Vaasa, 26 February 2007

Ritva Laakso-Manninen – Riitta Viitala

1

Introduction to the core elements of this book

1.1 A paradigm shift in business management

■ Organisations have faced big changes over the past decades brought about by trends like globalisation, technological innovation, restructuring and outsourcing. As a result, compared to their counterparts a couple of decades ago, organisations are now flatter, more flexible, more efficient, more customer oriented, more focused on short-term performance, and more distanced from their employees, who no longer view job security and loyalty as part of the employment contract (Vicere 1998; Conger 2001). In a continuously changing environment, organisations can no longer cope without continually developing their competencies and human resources.

Many of the critical issues facing organisations today are human issues. Joyce, Nohria & Robertson (2003) made an extensive study of factors that would truly obtain and ensure continued high levels of economic performance. 10 years of data on 200 firms in multiple industries showed the formula for success. Four foundational practices necessary to produce extraordinary returns were 1) a focused strategy, 2) successful execution, 3) a performance-oriented culture and 4) a fast and flat organisation. Additionally, four secondary practices that were required were 1) securing talent, 2) committed leadership, 3) industry-transforming innovation and 4) growth through mergers and partnerships. Well performing companies were strong in all foundation areas and at least in two of the secondary areas.

Joyce, Nohria & Robertson also noticed that many of the success practices are human in nature and that human resource management must play a critical role in building and sustaining them. A key task of human resource management is to build and sustain company competen-

cies. Their data showed that winner companies were active in building their competencies. Once they had it, they worked hard to keep it.

The idea that competence and knowledge are a critical source of competitive advantage started to receive growing attention at the end of the 1980s. Almost ten years later, most of the literature on strategic issues had started to put strong emphasis on core competencies and knowledge management. Indeed, both academic and general management literature on competence management and human resource development have witnessed the introduction of several new approaches and theories during the past fifteen years. The new paradigm has spread into several discussions and schools. Even though there are several ways to classify the discussions, they can be loosely be classified under the following six headings: 1) learning organisation, 2) strategic human resource management, 3) intellectual capital management, 4) individual competence/skills management, 5) competency-based strategic management, and 6) knowledge management (see Table 1).

The earliest studies focused on the examination of a company's learning process. This was done under the rubric of organisational learning. In conjunction with this trend, there was also an interest in what kinds of organisations best support competence generation and development. This debate took place under the rubric of the learning organisation. At the end of the 1980's, the debate started to gain strength and branch out further into an area characterised by the term competence management. Furthermore, research has increasingly focused on the strategic meaning of competence and the role of learning in organisational success.

Only a few years after it had become widely acknowledged that continuous learning plays a crucial role in company success, research began to focus on what should be learned. The answer to this question was sought from the competencies that were at the core of a company's chosen strategy. The competence that was at the root of a company's competitiveness began to be referred to as strategic competence, core ability and core capability. Strategy and the competencies this presumes have been strongly linked together in thought. Long and Vickers-Koch (1995), for example, have defined core capability as a crucial factor that creates added value for the client. In their view, core capability arises from two basic factors in strategic processes, namely resources and core competencies.

The origins of competence and its storage as capital have been approached via several concepts. Human competence is often discussed in terms of human capital and intellectual capital. Human capital refers to the capability of the members of an organisation to work and develop their activity (e.g. Sveiby 1997), while intellectual capital refers to human

capital plus items like structural and social capital. The organisational competencies that cover information systems, innovations, R&D activities, corporate culture and client affairs among others, are built with human capital. This has typically also included employee knowledge and competencies.

In what follows below, we describe various approaches to **competence management**. Research and debate on **knowledge management** has run closely in parallel to these approaches. In contrast to competence management, however, knowledge management is more technical in nature and addresses the question of how IT systems can support the acquisition, processing and dissemination of information within companies.

Approach	Researchers	Main questions and focus
Learning organisation	Argyris & Schön, Senge	What kind of organisation is the best in supporting competence renewal and development?
Strategic human resource management	Legge, Becker & Gerhart, Ulrich & Lake	How does an organisation plan, organise, supervise and develop human resources in order to carry out its strategy or to improve its competitive position?
Intellectual capital management	Edvindsson & Malone	How can intellectual capital's human and constructive elements be measured?
Individual competence/skills management	Dubois, McClelland, Lawler, Leford, Wood, Wood & Payne	How can individual skills that are needed for strategic objectives be allocated in the right places, at the right time and at the right price?
Competence-based strategic management	Prahalad & Hamel, Sanchez & Heene, Stalk, Evans & Schulman	How can we identify, utilise and develop capabilities that have competitive value, are built on organisational procedures and are developed over time in a company?
Knowledge management	Nonaka & Takeuchi, Davenport & Prusak, Walsh & Ungson, Dixon, Probst, Raub & Romhardt	How do we create, share, transmit, combine and modify knowledge, and how can these processes be managed?

Table 1. Key approaches to competence management (see Kirjavainen & Laakso-Manninen 2000).

The new theories and approaches shown in the table above have focused on the identification and development of core competencies on the one hand, and on the development of the company knowledge base on the other. The theories and approaches have their own backgrounds and manifest a variety of benefits.

Now, in the early years of this decade, we can say that organisations are still learning about these issues.

We have studied the extent to which and how organisations have managed to combine the new theories with practice, and whether they

have benefited from the integration new approaches with old practices. Partly this is a question of known things and old habits. It has always been necessary to introduce new ways of doing things at the workplace, and nowadays the demand for this is more challenging than ever. Competence management and human resource management should be strategic, flexible, effective and economical.

A key challenge faced by organisations is the question of how to integrate traditional human resource development activities with the strategic viewpoint. This calls for a changing role for human resource management. Human resource departments were in the past often accused of setting up systems isolated from the rest of the organisation. To be able to integrate human resource issues with top management's vision of a company's future, the department should capture a more strategic role. Human resource development is one of the most important factors contributing to future competitive advantage. Nevertheless, one still needs to ask how to make human resource development systematic and bring it in line with the corporate vision. The rationale for including the development function in strategic planning is persuasive but frequently ignored. In some cases, the development function remains outside strategic planning and even uninformed about plans after they have been made. For the people who manage human resource development activities, it is crucial to gain access to and participate in strategic business planning. Otherwise there is the risk that business strategy lacks people who are prepared to implement it.

1.2 Finnish society in the context of expertise-based competitive advantage

The success of Finnish companies and organisations can be said to be uniquely based on the emphasis given to personnel wellbeing and development. The success of the Finnish economy has likewise been built on a strategy of excellence and highly qualified competencies within the workforce. Finnish society values education very highly. For example, the Programme for International Student Assessment (PISA) has consistently rated achievement in Finnish schools to be among the best in the world, and has also commended that excellent learning results cover the young generation in its entirety. There are very few drop-outs. In this light, education standards and therefore also the competence base for companies is very good when they recruit human resources in Finland.

Competence has become a clear and important challenge for Finnish companies. This has become apparent, for example, in broad PA Consulting surveys, which regularly survey the largest Finnish companies and public sector organisations on their human resource management challenges and focus areas. In these surveys, competence management has been emphasised since the start of the millennium, with the 2003 report placing an even greater emphasis on competence. The reasons for this were the increasing role of competence in achieving competitive advantage, failures in prior competence development projects, as well as the need to find new, working solutions for competence management. Taking care of staff wellbeing was deemed most important, while management training came in third. (PA Consulting 2003).

Finnish companies have achieved two distinct levels in their competence development (Virkkunen 2002). Organisations on the first level are planning and implementing practices based on competence mapping, i.e. first wave activities. Organisations on the second level have often already gone through the first wave, and have achieved a more comprehensive state of competence analysis and management. The focus on this level is on business strategy and the competencies, competencies sharing and organisational learning this requires. In many companies, the focus has been on the creation of a competence management system that covers the entire organisation, one component of which has involved personnel development practices. In many cases, systematic competence management activities begin with development discussions. Companies that have proceeded the furthest already have comprehensive management systems in place, in which competence is not just one target of management, but integrated with the company's other activities.

This book discusses key theories and models in human resources development and competence management, as well as how modern Finnish companies have used and benefited from these theories and models in practice. This includes an examination of how the companies have implemented various systems to generate and maintain competencies in their organisations. We also present some case examples of how organisations have fared with the new models and how well they have succeeded in producing the top-level development, innovations and results within a democratic environment.

1.3 An integrated system for competence management and human resource development

A company's vision and strategic choices, as well as the competence management this entails, make up a broader framework within which a company's human resource development is given direction and parameters. Nevertheless, the literature in the field has not done much to integrate these points of view, which is one of the key tasks of this book.

In what follows below, we present such an integration. The model is called an integrated system for competence management and human resource development. The model was originally in the form of an integrated system for human resource development (Laakso-Manninen 2003), but we have reformulated it during the studies of this book. The model is based and builds on the current literature on the field. It has been formulated to function as a frame of reference for the study and understanding of real-life practices. It has been tested in a broad research study covering several Finnish companies. To find out the actual state in the Finnish companies and to test the relevance of the model, a project was carried out at Helia University of Business and Applied Sciences in Helsinki. During the project Helia's students completed surveys to find out the actual situation in the Finnish companies. A list of these studies is given in appendix 1.

The first research question of the studies was to find out whether the Finnish companies have adopted the new theories and models of competence management in practice, and if so, which theories and models. The second research question was to find out how well the integrated model of human resource management actually described the reality in the Finnish organisations.

The answer to the first research question was very revealing and could be somewhat of a surprise for theory makers. The fact is that companies and organisations very seldom make conscious use of theories or models, or systematically aim to adopt them. The only theory that was widely known or consciously attempted was the theory of the learning organisation. The case is that companies adopt and make use of theories essentially only to the extent to that they seem to fit their aims, operations and previous practices.

The answer to the second research question was more productive. The model and its elements seem to work quite well in describing the reality of the Finnish organisations. There were organisations that had adopted almost all the elements into their established practices and then there

were companies that had adopted only some elements of the model, but were half way to the final system.

With regard to competence management in the organisations, we can make a number of conclusions. A human resource development system that integrates a company's core competencies, knowledge base and the personal dimension typically includes the following elements:

- formulation and communication of the company vision
- identification of the company's core competencies, past and future
- identification of current expertise
- personal development discussions
- performance management and scorecards
- developmental dialogue on the corporate level
- strategies and systems for knowledge transfer
- human resource development methods.

Over the course of the studies, the integrated model was redefined as *an integrated system for competence management and human resource development* and is presented in figure 1. The model combines the aforementioned key theories and focus areas into a logical whole. The elements of the model will be described in the following chapters.

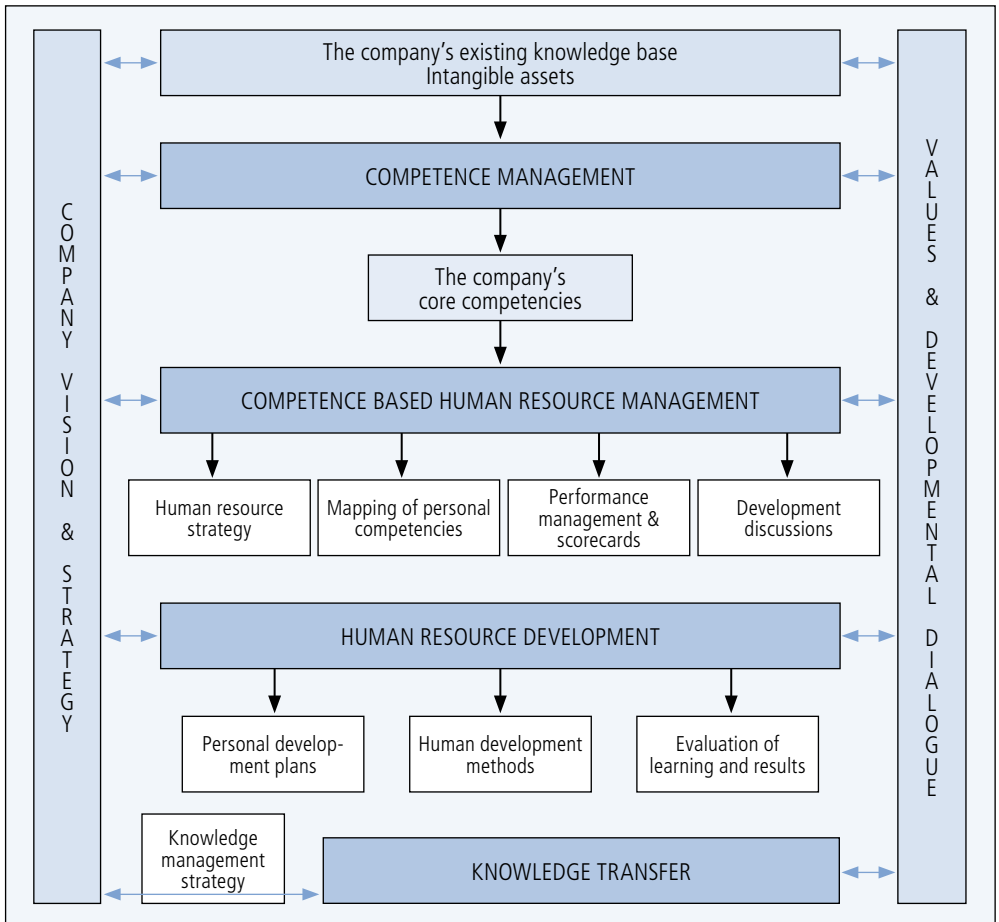


Figure 1. An integrated system for competence management and human resource development.

1.4 The aims and structure of this book

This book introduces a framework that comprehensively integrates competence management and knowledge based approaches with human resource development. We also describe how the framework supports and integrates with corporate vision and strategy. In addition, this book describes knowledge management and human resource development practices in some Finnish organisations.

This book is based both on our previous theoretical studies and articles on human resource development and competence management as well as on surveys made by the students of Helia University of Business and Applied Sciences.

We have sought to bring together competence management and human resource development theories and approaches in such a way that

they provide students and human resource professionals a manageable totality through which to understand how the theories and models described have had an impact on the way companies have chosen to build and develop their competence management and human resource development activities in practice.

Chapter 1 *Introduction to the core elements of this book* discusses trends in business management, the special characteristics of Finnish society, and also introduces the integrated model for competence management and human resource development, which also functions as the overall frame for this book.

Chapter 2 *The role of business strategy and company values in competence management* describes how a company's existing knowledge base, vision, strategy and values operate as foundation for strategic choices in competence management and human resource development.

Chapter 3 *Competence-based human resource management* discusses strategic human resource management and the knowledge base as the foundation for human resource development. This includes a discussion of items such as performance management and personal competencies.

Chapter 4 *Human resource development* describes human resource development paradigms and trends. It also sheds light on the role and importance of development discussions and personal development plans. Also covered are methods in human resource development and the evaluation of human resource development activities.

Chapter 5 *The link between knowledge management and human resource development* discusses significance of knowledge management systems and strategies, and their relation to competence management.

Chapter 6 *The learning organisation as a foundation for competence management* discusses how the notion of the learning organisation can function as a foundation for continuous competence development.

Chapter 7 *Postscript* discusses the roles of various players in corporate competence management and human resource development.

2

The role of business strategy and company values in competence management

■ A company's success is most often based on a unique and rare ability to do something well. Such a company has also had the courage to focus on this ability and actively seek new applications for it. Examples of such success stories in Finland include Nokia, Suunto, Vaisala and Polar Electro.

Only a few decades ago developments businesses developed linearly at such a steady paced that companies did not have a difficult time in adapting to change. Today the situation is different. Even if a company is able to identify changes in customer expectations before competitors, it may very well be that it cannot meet the changes if it doesn't learn to do new things or in new ways. Competence development that lags behind the demands of the environment can become a competitive bottleneck. Such a bottleneck may arise from a lack of qualified people, from a lack of competencies in some area, or from a wrong combination of competencies. It may also be that the competence level is not high enough. A company with limited competencies cannot make new moves in the marketplace, and, moreover, might not even be able to identify new opportunities crucial for business success. Just like mediocre products, mediocre competencies hardly ever lead to market leadership.

Competence has become a critical strategic factor for a company's success.

2.1 Direction from vision and strategy

For competence management and human resource development to fully address a company's future operations, one must first have a clear idea of where the company is heading. This is very much indicated by the

company's **vision and mission**. In their analyses of teams, Katzenbach and Smith (1993) discovered that a shared vision and mission is one of the most important indicators of team success. Their work showed that a clear and shared understanding of tasks explains team success significantly better than the ideal distribution of skills, for example. Their work also indicated that teams endowed with a clear and shared understanding of the mission and vision seem to be able to acquire any shortcomings in skills without paying explicit attention to them.

A company's vision has been described as:

- a means to make the wanted aim concrete
- a means to provide a road map for future direction
- a thought with emotional charge
- a challenging expression of will
- a framework for the future for comparison with the present.

A vision that is relevant on the individual level also improves job satisfaction. An organisation's vision is important in human resource development because it allows people on all organisational levels to identify what is important in both their everyday tasks and during training. Such identifying factors, which in effect steer operations and energy flows, are important to human resource development because learning is predicated on personal commitment and motivation. In the final analysis, developments in personnel expertise depend on what people think is important and necessary.

The vision is important not only because it steers human resource development and provides direction and motivation on the individual level, but also due to its primary task of indicating the direction and final objectives of the organisation as a whole. In order for the corporate vision to be achieved, it is very important that its assimilation within the organisation includes a human resource development system that has internalised this vision, actively seeks its implementation, and is capable of communicating this vision throughout the entire organisation.

To guarantee the understanding of the vision, the desired messages should be primarily communicated via associations and analogies, not so much via facts and hard data, as an inspiring and well-communicated vision fosters creative tension. This fact, as emphasised by advocates of organisational learning, e.g. Senge (1990), is to be understood in terms of how the organisation is to bridge the gap between the known-current-state and the sought-after-future-state.

A **vision chart** is a practical tool for identifying the critical success factors that are the prerequisites for the fulfilment of the vision. It is essential to make such **critical success factors** explicit. This makes it easier to communicate them to the entire organisation. In addition, an organisation can consider the critical success factors as a good point of departure for the identification of its core competencies.

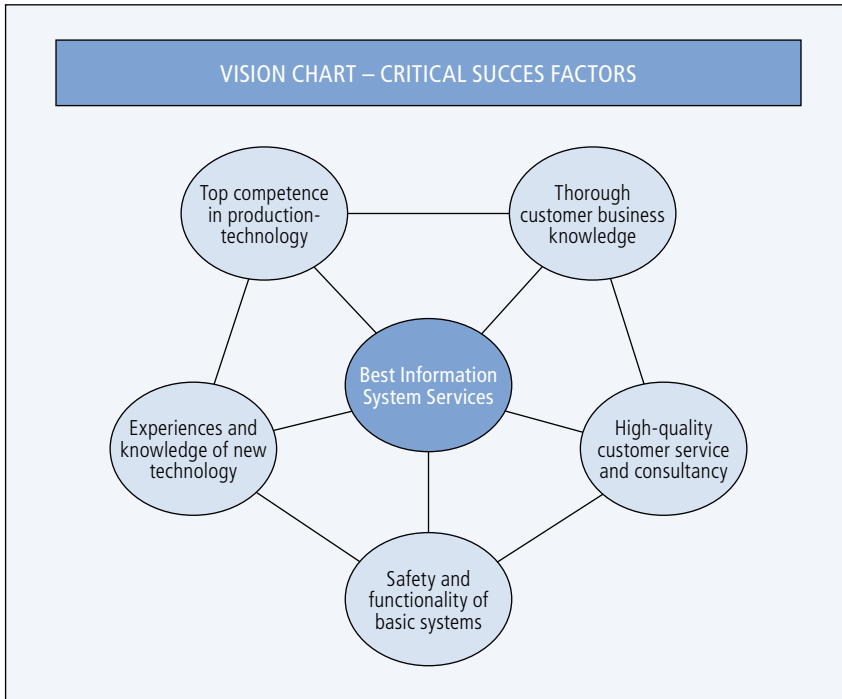


Figure 2. Example: Vision chart for an IT services company (Laakso-Manninen 2003).

The implementation of the vision is planned in the **strategy**. Peter Drucker was one of the first to talk about strategy in a business context. In 1954, he did this by seeking answers to basic questions: "What is our business? And what should it be?" The term distinctive competence was first used by Philip Selznick in 1957 to refer to what a firm does especially well in relation to its competitors. In 1962, Alfred Chandler was one of the first who explicitly defined strategy as "*the determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals.*"

The first writers to focus on the concept of strategy in terms of its development and implementation were Kenneth Andrews and Igor Ansoff, who independently introduced such concepts in 1965. Additionally, Ansoff was the first to use the term capabilities to describe a company's ability to

deal with different combinations of competitive environments and levels of “entrepreneurial turbulence”. He spoke of the different managerial capabilities needed to deal with stable, reactive, or anticipatory environments, and of functional capabilities, i.e. a firm's skill level in functions such as R&D, purchasing and marketing.

It was not until 1978 that writers and managers began to consider competence and capability as integral components of strategy. Hofer and Schendel used the terms as alternate ways of referring to resource deployments and clearly understood them as a specific means of creating competitive advantage: “*We have included resource deployments (distinctive competencies) as a strategy component, however, because it is clear that no actions or goal achievements can take place unless some basic skills are created and resources obtained and deployed in ways that cannot be duplicated easily by others. Second, resource deployments and competitive advantages are not only very fundamental aspects of strategy, but they also may be more important than scope in determining success.*”

The literature on corporate strategy has largely been shaped by a framework first conceived by Kenneth R. Andrews (1971) in his classic book *The Concept of Corporate Strategy*. Andrews defined strategy as a match between what a company can do (organisational strengths and weaknesses) within the universe of what it might do (environmental opportunities and threats). Although the power of Andrew's framework was recognised from the start, managers were given few insights on how to assess either side of the equation systematically. The first important breakthrough came in Michael E. Porter's *Competitive Strategy: techniques for analysing industries and competitors* (Free Press 1980). Porter's book built on the structure-conduct-performance paradigm. The essence of the model is that the structure of an industry determines the state of competition within that industry and sets the context for company conduct – that is, their strategy. This analysis put the spotlight on choosing the “right industries” and, within them, the most attractive competitive positions. Additionally, Porter (1985) created a value chain model and value chain analysis as tools for evaluating organisational resources: these can be used for defining key functions, i.e. functions that are crucial in offering added value for clients.

Minzberg (1987) argued that a company's result patterns often arise from a string of actions rather than explicit plans. Certain actions may be reinforced by positive consequences, and will be repeated and expanded as long as positive consequences continue. Later, these patterns may be interpreted by observers as intended. Minzberg stressed the need to recognise the existence of both deliberate strategies and emergent strategies.

Managers who are aware of both can better focus on the past, present and future, and also make use of their own judgments and the environment when evaluating what works or does not work.

Resource-based strategic thinking evaluates an organisation's current resources and opportunities, and builds the organisation's strategy on the basis of this. The questions asked are: What do we have? What can we make? And how should we channel our resources to ensure future success? Representatives of this approach include Kenneth Andrews (1971), Andrew Pettigrew (1985) and Henry Mintzberg (1994). This approach is also associated with discussions on the identification of core competencies.

Once the notions of core competence and competing on capabilities had been introduced, the strategy debate swung dramatically in the other direction, moving from outside to inside the company. The ensuing new approaches emphasised the importance of both skills and collective learning embedded in an organisation, and also the management's ability to marshal them. This view assumes that the roots of competitive advantage lie inside the organisation.

Knowledge base management has the goal of creating value added. According to Marchand (2000), this can be done in four ways: through risk management, through lower costs, through the creation of customer valued added, and through the creation of something new.

The emerging resource-based view of the firm helps to bridge the seemingly disparate approaches described above and to fulfil the promise of Andrews' framework. Like the capabilities approaches, the resource-based view acknowledges the importance of company-specific resources and competencies, yet it does so in the context of the competitive environment. The resource-based view shares another important characteristic with industry analysis: it, too, relies on economic reasoning. It views capabilities and resources to be at the heart of a company's competitive position, subject to interplay of three fundamental market forces: demand (Does it meet customers' needs, and is it competitively superior?), scarcity (Is it imitable or substitutable, and is it durable?), and appropriateness (Who owns profits?).

We can say that an organisation's strategy provides a practical viewpoint on what should be done and how to do it. Strategy guides decision makers on all levels to what is essential in relation to goals and the current state. A well-formulated strategy guides the use of human resources to meet the needs of the changing environment. Thus, strategy is the foundation for any long-term human resource development in organisations.

■ Case

Strategy orientation in the City of Vantaa's day care, with focus on the Hakunila day care centre.

The City of Vantaa has defined its mission as follows: "The city's mission is to safeguard a functioning community structure and welfare society services and to improve the environment of companies and citizens, while caring for people, valuing entrepreneurship, promoting sustainable development and a community spirit." As stated in its vision: "Vantaa is an international business, logistics and expertise centre, where life is good for people of all ages." The vision has been segmented into the following components: Welfare and security, sustainable city environment, competitiveness, regenerating economy, flexible operations, genuine participation and a competent Vantaa. Of these segments, flexible operations is described as follows: "Vantaa has competent staff who anticipate change and learn and interact in working communities." A competent Vantaa has been defined as follows: "A competent member of the Vantaa community is able to identify weak signals, learn new things and apply information creatively in practice.

The city's management has received training on the city's strategy, in which emphasis has been placed on the responsibility of the management to communicate the city's strategy to the personnel in their units. Management training was initiated in 2000. The strategy has been reviewed during regional development seminars. Regional managers meet with employees twice a year, and the city's strategy is communicated in person to employees during annual development discussions, with the superiors receiving guidance from their own superiors on how the strategy is to be discussed. This process has the goal of ensuring that, for example, a day care employee is aware of the city's vision, values and above all how they should be reflected in day care operations. In the day care centres, for example, superiors undergo these discussions with each employee. The process is monitored via an information system, in which the date of each development discussion is recorded.

Example from the Hakunila day care centre: On the city strategy group's initiative day care centre employees were invited to an information session in November 2003, in which the regional manager told about the city's vision, values and strategy, and the day care operations manager about the city's day care and nursery strategy. After the info session, the strategy group sent strategy assignments (appendices 2-4) to the day care centres, on the basis of which personnel were to reflect upon the values, mission, vision and strategy. This was done in order to ensure that all personnel commit themselves to the matter. The personnel felt that the assignments fostered reflection in a positive spirit.

Responsibility for communicating the strategy lies with the city's top management. With regard to the day care centres, the communication channels used are the city's internal personnel magazine, intranet, bulletins and meetings on several levels. Currently, such meetings are among the most important communication channels. Joint meetings provide an opportunity to share one's ideas and reflect upon them in consideration of the views of others.

(Aspholm, P. & Mäkikoski, T. 2004)

2.2 Values as a base for strategic choices

When one undertakes to strengthen a company's competitiveness via its knowledge base, one is lead directly to questions about human resource management and especially competence management. This is when one necessarily gets fully involved with people management, and this is also when one must address value choices. Companies do things that they feel are valuable. If no explicit decision has been made to give value to some matter, then it is also not felt important to spend energy and resources on it.

Values drive the entire organisation and its operations. Values are understood as prerequisites for success, and they should be reflected in all organisational activity. Values reflect an organisation's long-term goals and operating practices. They speak about trends that remain stable for years ahead. They provide a basic sense of security in a continually changing environment and also stand for continuity.

Values are commonly accepted operating principles. A company's entire staff should participate in their definition, be aware of the company's shared value base, and understand the relevance of the values to one's personal tasks. This is, above all, a challenge for top management. Aaltonen & Junkkari (1999) are of the opinion that joint value formulation leads to visible results such as better customer service, better workplace well-being and a better functioning workplace community. Top management's commitment to company values is especially important, as the example set by management either destroys or strengthens the value management process (Aaltonen et al. 1999).

Value management must necessarily aim to ensure that all employees understand an organisation's chosen values and have internalised them as principles that guide decision making. When this is successful, everyone should be able to reflect upon their decisions independently and also take responsibility for them. Value management is all about participation, and true commitment requires personal leadership from each and every employee.

Many Finnish companies and organisations have defined their values and published them in written format. For the most part, however, the values have been defined as values that guide the entire organisation and the achievement of the business idea, with less attention on values on different organisational levels. Only in a rare cases have values specific to responsibility areas been derived from overall corporate values, e.g. values guiding human resource management. For this reason it is usually the case that human resource management operations, or for example

strategic competence management operations, are guided by values that have not been explicitly defined on these levels.

If a company has chosen competent staff as a value, for example, this inevitably leads to further and more detailed value choices and a concomitant impact on everyday operations. In many fields, competent staff necessarily means committed, experienced and educated employees that know the organisation well. In such situations, the promotion of staff competencies and commitment are therefore necessarily a key value. This may mean a loss of flexibility, for example, as the company avoids outsourcing staff and strives to find long-term employees. This may also mean the acceptance of costs in the area of competence development, even though cutting costs in this area might be justified in the name of short-term profitability goals. It is not possible to simultaneously implement values that are in conflict with each other. Value discussions, value choices and value commitment are therefore an indispensable starting point for company operations on all levels.

■ Case

The S Group's people-friendly business model is strongly rooted in its values

The S Group is a leading Finnish retail store and service sector company network, consisting of 22 independent regional cooperative stores and the central cooperative, Suomen Osuuskauppojen Keskuskunta SOK, owned by the regional cooperative stores. The S Group also has 20 local cooperative stores. The Group provides services for the supermarket trade, service station store and fuel trade, the department store and specialty store trade, the hotel and restaurant business, the vehicle and automotive accessories trade as well as agricultural trade. The Group has its own purchasing and logistics organisations, and commands a 36 % market share of the Finnish groceries trade. The S Group has made a conscious and visible decision to develop its business on the basis of a strong value base, which encompasses both emotional factors as well as operations efficiency. The latter is reflected, for example, in the Group's chain store development activities.

The S Group's operations trace back to the early 1900s, when the first cooperative stores were established, and the Group's current operations are still strongly linked with cooperative enterprise. Cooperative enterprise differs from the operations of limited liability companies in many ways. The Group's net result, for example, is not distributed as dividends, but rather used for the benefit of its owning cooperatives as well as for the improvement of the Group and its field of business. The cooperative stores are owned by their customers, who have decision making power and receive a share of net income. The S Group refers to this important stakeholder group as its customer owners.

The cooperative system has proven to be a foundation for the Group's lasting success. Cooperatives are much appreciated in today's environment with regard to both their spirit and operating practices. With due respect to the basic values surrounding cooperative enterprise, the S Group has defined its own values as profitability, responsibility, regeneration and partnership. The people-friendly business model that derives from these values generated 100,000 new customer owners to the regional cooperative stores in 2005.

The S Group has further concretised its values in its future objectives and core messages, which function as pillars for the maintenance of the Group's reputation, as embedded in its chosen values. The core messages are based not only on the values, but also on the Group's business plan, vision and strategy. The messages are comprehensive services near the customer, richly rewarding, successful and regenerative, community representation, and customer ownership.

(Neilimo, K. 2006)

2.3 Intangible assets

One of the key tenets of traditional management science is that a company can operate and succeed only if it has sufficient capital. This referred to financial and physical capital, which was easy to calculate. Capital was primarily money, machinery, equipment and property, and a company's net worth was calculated on the basis of this. But nowadays what companies sell, and also produce it with, is primarily information, which puts physical capital in a secondary role. Nowadays, even manufacturing companies often no longer own any production technology or physical assets, but rather

outsource such services from elsewhere. The only strategically important capital is the competence that manages the entire operation.

As business has become more information intensive, the focus has shifted towards intangible assets, which play a central role in a company's operations and success. **Intangible assets** have been defined in many ways. All the definitions, however, reflect factors such as employee competencies, company processes and customer relationships. This matter has also been talked about using other concepts. These include invisible assets, intellectual capital and knowledge assets.

That intangible assets are important is without dispute, but their definition has proven to be very difficult. Intangible assets are invisible by nature. They consist of experiences, understanding and information that are deeply rooted in people's actions and a company's ways of working. Often invisible capital is divided into three constituent parts: human capital, social capital and structural capital (Seeman, De Long, Stucky & Guthrie 2000; Lönnqvist & Mettänen 2003).

Human capital covers the knowledge, skills and experiences of an organisation's members. It is both visible and invisible. When focusing on human capital, an organisation is led questions like: Do we have enough of the right kind of people? And how should we strive to develop their competencies for future success? Human capital is made up of staff competencies, which are the result of education and experience, and as such involve personal knowledge, abilities and attitudes. Human capital also involves the mental and physical wellbeing of personnel. It covers the ability of people to work together and surpasses the sum of individual competencies. It encompasses all the creativity and innovativeness on the basis of which the organisation regenerates and develops itself.

Social capital is produced through social interaction, networks and human relationships. According to Putnam (1993), social capital consists of "features of social organisations, such as networks, norms and trust, that facilitate action and cooperation for mutual benefit". Trust has often been emphasised as a most important element in social capital. For example, if relationships are high in trust, people are more willing to engage in social exchange and cooperation. Trust also eases coordination between actions and increases the will to take risks in joint activities.

Social capital has three critical roles. First, it lowers exchange costs, as trust speeds up cooperation and increases flexibility. Second, good personal relationships produce a better learning environment, as trust ensures that information conducive to learning is channelled both ways in a relationship. And third, good and trusted relationships are a source of competitive advantage that is difficult to copy or transfer. Trusted re-

relationships over time evolve into a common way of working and produce a shared understanding in which different competencies join together in unique ways.

The key elements of social capital are relationships with various stakeholders and the agreements made with them. These are reflected in a company's image and brands, which is why they are also classified under social capital. Customer relationships are most critical element of social capital.

Structural capital consists of all the knowledge that remains in an organisation after the employees go home. This includes visible knowledge that is stored, for example, in processes, guidelines, descriptions, patents and copyrights. Structural capital also consists of elements that give structure to and maintain the organisation, such as the organisational structure, production technology, information systems and processes. An invisible component has also been attributed to structural capital, for example the organisation's values, culture and operating philosophy. These invisible components have been justified on the basis of the fact that, especially if they have been documented and jointly agreed upon, they define the organisation's operations and they are assimilated by new employees upon joining the organisation. In other words, they define the organisational community in a way that somehow exceeds individual free will.

Lönnqvist and Mettänen (2003) have characterised the components of human capital, social capital and structural capital as shown in the table below.

Human capital	Social capital	Structural capital
<ul style="list-style-type: none"> • Knowledge and skills • Experience • Education • Creativity and innovation • Other elements (e.g. management, entrepreneurship) 	<ul style="list-style-type: none"> • Relations with customers and other stakeholders • Agreements with stakeholders • Image and brands 	<ul style="list-style-type: none"> • Technologies • Information systems • Processes • Values and culture • Management philosophy • Patents, copyrights, • Professional secrets and other immaterial rights

Table 2. The components of intangible capital (Lönnqvist et al. 2003).

Ulrich (1998) took the debate on intangible assets strongly towards a personal direction. He proposed that an organisation's most important asset is intellectual capital, which consists not only of knowledge and capabilities, but also of motivation and commitment. For him, intellectual capital is the sum of competence and commitment. The capabilities of people are transferred to a company's benefit only if they are motivated to use and develop these capabilities for the benefit of their company.

Employee motivation and commitment are the only things that produce intellectual capital for the organisation.

2.4 Competence management

Knowledge intensive management theories have over time spread in several directions. With regard to competitive success factors, the central turning point was the introduction of the concept of **core competence** in 1990 by Prahalad and Hamel. Another essential concept is the idea of **meta competence**, meaning the competence to develop, maintain and utilise competencies. The essential idea is that competence is a strategic issues integrally tied to company success.

Competence management has its roots in management theory, especially in strategic development. In addition, competence management has drawn on the behavioural sciences, on pedagogy, cognitive psychology as well as information technology. The main focus has been on competence as a business generator, not on competence as a question of individual competencies.

Competence management can be defined as the activity that aims to safeguard and strengthen a company's operating capability and competitiveness by means of its knowledge base. Competence management nurtures and develops a company's competencies on all levels. This requires direction, definition, evaluation, planning and development.

Competence management covers all purposeful activity that fosters, develops, regenerates and produces the kinds of competencies required by a company's strategy. It is a broad concept, covering management on many levels. The concept refers to all aspects of the management system that guide an organisation's competence management activities.

Competence management is not only about identifying the core competencies but also about strengthening them. To achieve the latter, one first needs to identify the competencies on which the future of the corporation is to be built, and to make these visible throughout the organisation by active communication. Core competencies development is a matter for many functions, e.g. process engineering, quality management, human resource management and human resource development in general.

Ståhle and Grönroos (1999) consider a **company's knowledge base** to be a dynamic and immaterial phenomenon that arises from expertise, interaction and information flows. Information cannot be shared without personal exchange, cannot be useful if it is insufficient, and even the best

information cannot function as a reserve for strategic growth if it is not shared throughout the organisation.

A successful knowledge base strategy requires that people share their expertise with each other. The more the opportunities for contact, the more people are likely to share information with each other. And the better the quality of personal exchange, the richer will be the information that is conveyed. An analysis of such exchange will reveal the underlying dynamic of how information is transferred and flows within the units of an organisation, and will also indicate how receptive a company is to innovation.

2.5 A company's core competencies

A company's competitive advantage resides strongly in its expertise. As a strategic factor, expertise is typically studied through a company's core competencies, their creation and development, and this has opened up new perspectives to strategic management. The first **strategic perspective** is the idea that the focus is on core competencies as such, and not on the results that these competencies achieve. Core competencies can enable the creation of new product and service selections to meet customer demands in changing markets (Hope & Hope 1997), and they also can make it easier to enter new markets (Hamel & Prahalad 1994). The second strategic perspective is that competition is not understood as the battle for market share in existing markets, but as an attempt to establish a vision of future possibilities and their exploitation (Hamel et al. 1994), especially in relation to competencies. Furthermore, corporate management builds its core competencies by investing in infrastructure and networks that link the various functions and units of the value chain together (Stalk, Evans & Schulman 1992).

Companies must therefore also compete in the development of core competencies. In other words, they must compete not only with product quality and market share, but also with the quality of their core competencies and their speed of development.

The contents of core competence

The origin of the notion that **competencies are characteristics of organisations** can be attributed to the work of Prahalad and Hamel (1990), who analysed the competitiveness of organisations and attributed it to the possession of core competencies. They postulated that organisations can possess unique clusters of factors that allow it to be competitive,

and that human capital is one of those factors. This resource-based view conceptualises the organisation as a collection of competencies and draws attention to issues of learning, including knowledge accumulation and experience. Cappelli and Singh (1992) argue that competent employees potentially create competitive advantage, and moreover that such competencies are company-specific and difficult to imitate.

In this book we refer to competence as a characteristic of an organisation. However, it is important to note that some writers consider this to be an inappropriate conceptual stretch of the concept. Altogether, the variation in terminology in the literature is wide, and for example “competence” and “capability” are often used as synonyms. Sometimes capabilities are defined in terms of competence, and competence in terms of capability (Nanda 1996). And sometimes they are given different emphases in meaning. For example Stalk, Evans & Schulman (1992) define the concepts as follows: *“Competencies and capabilities represent two different but complementary dimensions of an emerging paradigm for corporate strategy. Both concepts emphasises “behavioural” aspects of strategy in contrast to the traditional structural model. But whereas core competence emphasises technological and production expertise at specific points along the value chain, capabilities are more broadly based, encompassing the entire value chain”*.

In his dissertation, Vesa Taatila (2004) strove to clarify the concept of **organisational competence**, which is generally understood to mean an organisation's internal capability to achieve objectives. In Taatila's formulation, organisational competence involves the following six key features:

- the number of competencies is many – theoretically an infinite number
- they can be classified under three main headings: individuals, organisational structure and assets
- an organisation's environment is not a part of its competencies but is nevertheless important because it is continually in touch with the competence factors
- different stakeholder groups set different objectives for the organisation, and therefore an organisation's competence depends on the objectives of the evaluator
- the utilisation of organisational competence is situational, and therefore competence requirements depend on the situation at hand.

Even though we are cognisant of the conceptual framework above, we have chosen to adopt a broader understanding of the concept, as in Prahalad and Hamel.

Separate from the concept of competence has emerged the concept of **core competence** (Prahalad and Hamel 1990.) A company's core competencies relate to the achievement of its vision through the value-added it intends to produce in the future. Core competencies are not to be based on product groups, technology choices or market segments, but rather on a knowledge of customers and markets.

A company's core competencies enable the creation of new product and service selections to meet customer demands. These are the result of organisational learning, not individual learning, and not easily copied by competitors. (Prahalad & Hamel, 1990.) It is useful to examine core competencies also in relation to the markets. Hamel & Prahalad (1994) distinguish four different relationships between competencies and markets.

Core competencies	Future	What new core competencies do we have to build to protect and expand our current markets?	What new core competencies do we have to build in order to be able to participate in the most promising markets of the future?
	Present	What possibilities do we have to improve our current market-position by better utilising our current core competencies?	What new products/industries are we able to develop by combining our present competence with new core competencies?
		Present	Future
		Markets	

Figure 3. Relationships between core competencies and markets.

According to Long et al. (1991), a company can achieve a balance between internal capabilities and external opportunities on several levels. First, it can examine existing core capabilities and market segments and identify opportunities to use those capabilities to create new products and services for blank areas in those market segments. Second, it can explore existing market segments to determine what new core capabilities could be developed to protect its position in those existing markets. Third, it can create new products and services by redeploying or recombining existing core capabilities to satisfy new market segments. And finally on the fourth

and the highest level of innovation, a company can search out the most promising new market segments and try to develop new core capabilities to participate there.

The achievement of the corporate vision is built on core competencies. There is a lot of tacit knowledge gained through experience behind core competencies, and the mechanisms through which these core competencies are put to work, e.g. organisational processes, operating practices, and organisational culture, have also been streamlined into a working system through time. For this reason it is probable that even key personnel are not able to fully explain what the core competencies are or how they operate unless the organisation has made an active effort to make them explicit in writing.

For most companies, the core competencies can be found on three levels:

- competence in customer management
- competence in the production process
- competence in operations and operations development.

These three core competence levels can usually be subdivided further into competence areas. Customer management, for example, may consist of the following areas: formulation of customer strategies; knowledge of customer needs and fields of business; development of customer databanks; and dissemination of customer information within partner networks. Production process competence, in turn, may involve the creation of supply chain models and the modularisation of services and information support systems. And finally, operations and operations development competence might involve the development of personnel resources, the organisation, as well as the continuous development of operations.

The core competencies might also originate from factors such as product leadership, operating efficiency or customer relationships (Hope & Hope 1997). Companies that focus on product leadership base their success on cutting-edge products and fast market entry. Such companies usually seek customers that are driven by fashion or the latest technologies. Companies focusing on operating efficiency usually have customers that choose on the basis of price or ease-of-purchase. And companies focusing on customer relationships usually serve customers who want products and services tailored to their specific needs. Customer-oriented companies usually strive to make use of the latest technologies to tailor customer-specific solutions.

Identifying the core competencies

The first task in core competencies management is to find out what the core competencies are. This involves the identification of the factors that have produced them in the past and will contribute to them in the future. The process involves a close examination of the strategic logic at work behind a company's operations, i.e. the interrelationships between expertise, internal processes, customer solutions and financial indicators. The core competencies become manifest once one identifies the operations in which most value-added is created and the resources that are used in them.

When a company is trying to identify its core competencies it can help if it tries to find out what customers are buying and ask questions like:

- Why are they shopping in our store?
- Why aren't they buying from our competitors?
- What do people buy from us that is unique and valuable?
- What is a customer paying for when he buys from us?

The answer is some set of attributes including quality, price, product line, service and so on. But the most important questions for the organisation are what created that product line, technical expertise or quality or what allows the company to offer low prices. It is only when the organisation finds the answers to these main questions that it can uncover the core competencies.

To make the most out of a company's core competencies, top management must be aware of the factors that have led to the company's successes in the past. The core competencies are usually deeply rooted in these success factors and grow with the processes that guide the development of knowledge and experience. It is in these processes, which are often varied and difficult to pinpoint, where the sources of competitive advantage reside.

A company discovers its core competencies through a process in which top management translates its understanding of the company's customers, technologies, competition, history and current resources into clear choices about the kinds of business the company intends to practice and the primary value-added the company intends to offer in the future. The core competencies are the means that show how these choices will be achieved. One should note here that competitively valuable expertise is always expertise in relation to some task. A company will not be able to determine its core competencies unless it is aware of the customer needs it intends to meet in the future.

Long & Vickers-Koch (1991) have described a process where an organisation identifies its core capabilities and at the same time finds the

most beneficial balance between internal capabilities and external opportunities. According to them top managers together with key line managers should:

- validate the historical milestones of the organisation and establish a vision of the future that defines, shapes, and gives meaning to the organisation's strategic purpose
- discover which capabilities the company has depended upon to create whatever competitive advantage it has attained
- identify unique opportunities among the company's customer groups and market segments to create the greatest possible value through the use of the company's core capabilities
- determine which current capabilities need to be nurtured and which future capabilities need to be developed to continue to add value in the eyes of the customers and market segments selected
- establish priorities for resource allocation and the timing of critical moves necessary to build those capabilities and to meet the needs and expectations of targeted customers
- develop feedback mechanisms that support continuous learning and rapid responses to maintain the optimum balance between core capabilities and strategic targets.

It may very well be that the way in which the core competencies are broken down into competence areas will affect the way in which the core competencies are finally perceived. Core competencies that are formulated during top management strategy meetings usually consist of success factors pertaining to the entire organisation. And core competencies defined by business units place less emphasis on organisation-wide concerns. For this reason it is very important that core competencies are formulated on the level of the entire organisation. This provides direction and a point of reference for the formulation and development of competencies on the unit level. The core competencies should be in harmony and support the entire organisation.

In their studies on the core competencies of companies, Prahalad & Hamel (1990) have found that the best sources of competitive advantage arise from operating practices that extend from customer to customer, and therefore run across business units. The analysis of core competencies should therefore also look into the relationships between business units. This can be done, for example, with the help of cross-unit working groups. Such groups meet to discuss the core competencies formulated during corporate strategy sessions, and have members from the different business units. The results can then be sent back up to top management for

final formulation. Another method is the so-called bottom-up approach, in which each unit formulates its own competencies with due regard to the unit's role within the entire organisation. The unit competencies are then compiled on the level of the entire organisation.

The core competencies link not only to a company's past but also to its future. Core competence areas are about competence resources on the one hand, and about challenges and demands on the other. It is easier to describe and evaluate the competencies that already exist and are operational and concrete than those that don't yet exist but are needed.

Core competencies for the future

A company's core competencies link also to its future. In this regard, the identification of the core competencies involves the company's mission and vision, i.e. the vision of the company's tasks in a chosen future. The vision reveals the customer benefits on which future competencies will be built. A comprehensive setting of objectives will contribute to the company's future by providing direction to the thoughts, emotional energy and actions of employees (Collins & Porras 1991). This involves building an image of future operations, and is to be based on the identification of general trends in the business environment through the prism of the company's mission and purpose. The livelier the image, the more visible will be the means through which this can be achieved (Kauppinen & Ogg 1994).

At any level, core competencies are the most critical and most distinctive resources a company possesses. They are difficult for competitors to copy because they are based on knowledge, skills, and processes developed over time into workable combinations within the context of a particular organisational setting. For the same reason they are also difficult to change suddenly. This makes it extremely important for a company to clearly identify and understand its core competencies in relation to its market opportunities.

A fundamental problem for top corporate management is a blurred future. Core competencies can be built up over quite a long period of time, and therefore the foresights behind the chosen vision and strategies should be apposite. It's no longer enough simply to execute and "do things right". Top managers must choose the right thing to do: set a course, steer through the strategic issues that cloud their companies' horizons. Anything that can help make a decision in the midst of uncertainty will be valuable. One such tool is **scenario planning**. A growing number of corporate executives are using scenario planning to make big, hard decisions more effectively. According to Global Business Network "*Scenarios*

are tools for ordering one's perceptions about alternative future environments in which today's decisions might be played out."

According to Wilkinson (1995), the purpose of scenario planning is not to pinpoint future events but to highlight large-scale forces that push the future in different directions. It's about making these forces visible, so that if they do happen, the planner will at least recognise them. It derives from the observation that, given the impossibility of knowing precisely how the future will play out, a good decision or strategy to adopt is one that plays out well across several possible futures. Wilkinson states that to find a "robust" strategy, scenarios are created in plural, with each scenario diverging markedly from the others. These sets of scenarios are in essence specially constructed stories about the future, each one modelling a distinct, plausible world in which we might someday have to live and work.

When a company determines its vision and strategies on the basis of a clear understanding of what its current and future core competencies are, it will have achieved a firm foundation for human resource development. It will then be possible to link human resource development with the corporate vision and strategy, while continually strengthening the company's core competencies.

Strengthening the core competencies

The process of defining a company's core competencies produces information about where it should focus and what it should rule out or pay less attention to. The means by which a company can safeguard and build its required competencies can be loosely grouped as follows:

- the development of existing competencies
- the purchase of competencies – e.g. the acquisition of a company (or a part of it) with the required competence, or the recruitment of new personnel
- the leasing of competencies – the purchase of services from companies that have the required competencies, e.g. from subcontractors or consultants
- the commitment of competencies that are valuable in the present and the future – e.g. through personnel policy
- the transfer away from the company of competencies that are becoming or are obsolete.

The core competencies that are at the heart of strategic success must be closely guarded, while simultaneously a foundation must be laid for the birth of new core competencies. In general, a company takes a great strategic

risk if it surrenders its ownership of strategically important competencies to others. The competencies that do not fit in with chosen focus areas, however, are competencies that can be acquired from outside the company. Sometimes this means **outsourcing decisions**.

Indeed, the increasing focus on core competencies has greatly contributed to the ongoing shift to outsourcing. Starting in the 1990s, companies began to choose with increasing care which competencies they wanted to develop on their own, and which to leave for others. In the current market environment, companies increasingly find it too difficult a task to maintain and develop all corporate functions simultaneously.

Usually outsourcing proceeds incrementally. Routine operations that are distant from the company's business idea and core competencies are first in line, for example property maintenance, security and food service. Operations that are strategically more important and closer to the core competencies and core business follow, for example logistics, finance, marketing and communications. Embleton and Wright (1998) have noted that an operation is easily outsourced when it is routine, easily bracketed and easily managed from afar. It is also important that it can be purchased from several service providers.

In the **strengthening of an organisation's internal core competencies**, a central role is played by human resource management and human resource development, which will be discussed in the following chapters.

■ Case

Fazer confectioneries relies on systematic competence management for future success

Fazer Confectioneries is a sales company operating in Finland and a part of the Cloetta Fazer confectionery business. Cloetta Fazer is the market leader in the Nordic confectionery business, and Fazer Confectioneries is likewise the market leader in Finland. The company employs about 140 people.

The company has recognised that its most important resource in the future will be expertise. Society is increasingly expertise-based, and work increasingly involves the processing of information. The current situation is very much akin to the transfer from agrarian to industrial society. Businesses must become increasingly flexible and managers must increasingly stay in tune with international trends in their fields. Over the years, Fazer Confectioneries has positioned itself for more concentrated competence management, partly because its corporate culture has a long-established tradition of emphasising continuous improvement. The company fosters and encourages continuous education, learning and the sharing of expertise, and strives to integrate personal studies with corporate development. Many of the ideas expressed here, for example, have their origin in the seminars and theses completed by the company's employees as a part of their MBA studies.

A couple of years ago the company felt that focusing on traditional performance indices would no longer be enough, i.e. it was felt that they no longer reveal the causal mechanisms that lead to success. There was a need for new indicators and tools, and these were found in Kaplan and Norton's Balanced Scorecard. As it turned out, this initiated "an interesting and challenging long-term development adventure". The use of the Balanced Scorecard required the introduction of new indicators that would point the way to the future in this fast changing world. One aspect in this process was the identification of competencies that would build competitive advantage. The key questions to be answered were as follows: how to acquire the correct competencies and how to integrate them on both the organisational and individual level?

Each February the company holds a one-day strategy seminar during which chosen representatives give presentations on the key changes taking shape in their respective operating areas, usually for the next 1-3 years or possibly even further ahead. The participants then discuss what the changes mean for Fazer Confectioneries, for example, if there is a need to alter the critical success factors measured via the Balance Scorecard, or if there is a need to work on the competencies through which these factors of success are achieved. If the answer is in the affirmative, further discussions take place to identify which competencies are needed the most, where they are needed, and how the competence goals relate to the current state of the organisation.

If the goals do not match the current state, the necessary actions are formulated. This involves the initiation of development undertakings that take into account the causal relationships between the company's strategic objectives, the critical success factors that describe them, as well as the competencies required. These competencies are also linked to the company's competence assessments on both the corporate and individual level. In this regard, it is crucial to identify undertakings that will create competitive advantage in the short-term and the long-term. A truly well functioning organisation should itself lead the markets in which it operates, rather than merely reacting and adapting to the changes taking place in them.

In August all Fazer Confectionery employees complete a competencies self-assessment. The self-assessments are compared with the goals set for the different operating areas during the strategy process, and reports of these are sent to the employees and their superiors as background material for their annual development discussions. In October the February results with regard to environmental changes and competencies requirements are updated, in order to make sure that the process is on the right track.

The annual development discussions, which are held between November and January, are used to inform everyone about the company's values, strategies, critical success factors, as well as the company's competence needs in the short-term and long-term. The matters discussed are then integrated with the employees' self-assessments, business area scorecards and the overall development plan. The development plans are also taken into account in the company's training program, thus integrating personal development with company objectives. Personal development plans are monitored by means of review discussions held every four months.

Management must be committed to action over the long term. Competencies are not easy to lose, but they can only be achieved through hard work and clearly set objectives. One also does not have to do everything on one's own, but one should look for partners with whom to share expertise. As in many other functions, information technology is especially useful in this regard. Management plays a key role throughout the process, as change involves clear challenges, and the organisation needs to learn to discard old practices while acquiring new ones. A further challenge is to make sure that interaction on the personal level remains on a good level throughout the process. The company needs to create an environment of continuous change and learning.

(VM 2001)

3

Competence-based human resource management

When a company has become conscious of the fact that its competitiveness is strongly based on distinct competencies, and has also defined them, the strategic significance of human resource management steps into the foreground. The emphasis given to personnel in strategic planning varies depending on the business in which a company engages. In knowledge-intensive organisations, strategic management is often all about human resource management. The best examples of such companies are design agencies, consultancies and advisory agencies.

Sveiby (1990) is of the opinion that knowledge-intensive organisations must necessarily integrate the business idea with the human resource idea. The human resource idea is a joint understanding that has been systematically formulated and documented just like the business idea has. Their linkage must be seamless because success in the marketplace often depends solely on the players involved. The human resource idea is closely related to human resource strategy, but in the best scenario it can encapsulate how staff and competencies play a central role in company profitability.

3.1 Strategic human resource management

A company's human resource management is defined and bound by the company's vision, business strategies and objectives (see figure 4). The human resources viewpoint has gained ground in business strategy over the past decade, while simultaneously the strategic viewpoint has gained ground in human resource management. **Strategic human resource management** seeks an answer to the question: How does an organisation plan, organise, control and develop human resources to carry out its strategy and to renew its competitive position? (Kirjavainen 2003).

An organisation's **human resource strategy** is a long term plan on how to ensure that there are enough of the right kind of people to fulfil and develop its business strategy. A human resource strategy provides rules for directing, using and developing human resources. This includes human resource processes and systems through which the organisation guarantees that it will have the right resources in the long run. Moreover, a human resource strategy describes the human resources goals for the strategy period, for example the amount and structure of personnel, the required competencies, as well as personnel wellbeing. A human resource strategy also states the means by which goals will be achieved. (Viitala 2003.)

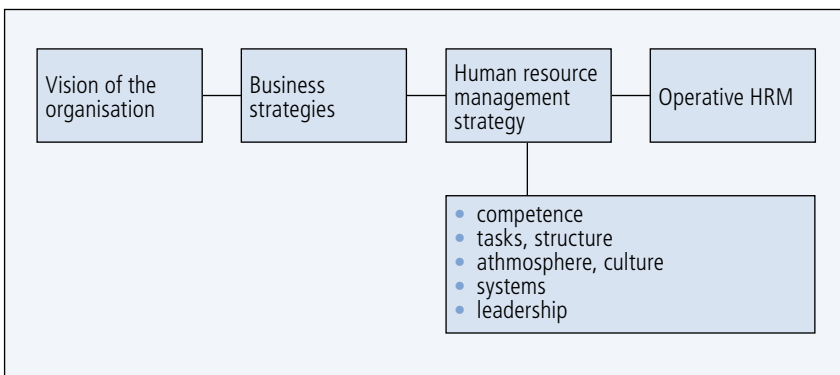


Figure 4. Vision and strategy provide direction to human resource management (Viitala 2003).

A human resource strategy is supported by **personnel policy** which defines the principles for operational actions and responsibilities by which human resource management is carried out. It describes and states the big rules in which all human resource actions are coordinated in order to achieve consistency and harmony with business strategies (Viitala 2003). Personnel policy replies to questions like 1) what kinds of personnel are needed (amount, structure, education, competence), 2) how employees will be recruited, 3) how employee competencies are to be safeguarded and developed, 4) how personnel will be rewarded (salary and reward systems), 5) how personnel will be supervised and supported, and 6) how outsourcing will be managed. In general, we can say that the policies are to be long lasting if human resource issues are to play a key role in strategy implementation.

Figure 5 characterises **the connection between organisation strategy and human resource strategy** through several scenarios (Torrington et al. 2002). The first scenario describes a situation in which no connec-

tion exists between the strategies. This can be the prevailing practice in companies where strategy, if indeed there is any, is primarily top management's affair and the personnel departments job consists mostly of practical tasks. In this kind of scenario, it can very well be that there is no human resource strategy.

In the second scenario, the company has understood that human resource actions are essential for carrying out the organisation's strategy. The human resource strategy has been planned so that it supports the implementation of the organisation strategy. In the third scenario, the human resource strategy has not been subordinated to the organisation strategy, as it is assumed that mutual adaptation and searching solutions is needed. In the fourth scenario, which makes up a holistic model, human resources have been identified as the most important factor, and human resource strategy is considered to be a critical factor for the company's success.

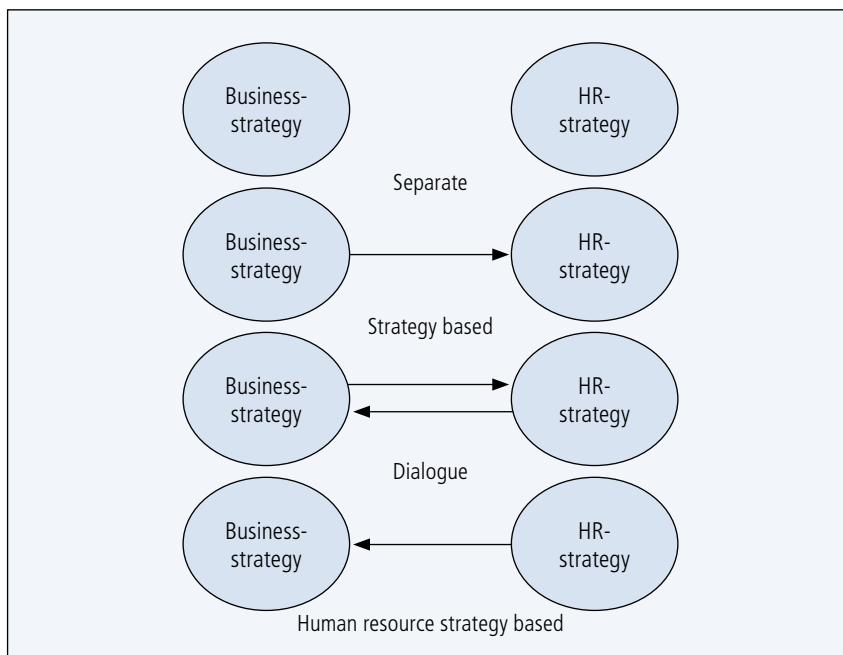


Figure 5. Connections between organisation strategy and human resource strategy (Torrington 2002).

In the current environment, strategic company activities are informed by customer orientation, globalisation, flexibility, networking, cost-efficiency and information intensity. These all have an impact on strategic human resource policy, while one must also take into account practical human resource concerns. This includes labour force trends and characteristics,

e.g. general demographics, the relative scarcity of labour in certain fields, as well as relatively high employment costs in Finland. The above mentioned factors result in conflicting pressures for human resource management. For example, the need for flexibility might hinder recruitment even though future scenarios indicate that one should try to hold on to good employees at all cost. Personnel development departments often need to find a balance between growing pressures for personnel development on the one hand, and the demands for cost efficiency and organisational flexibility on the other. The table below matches current business strategy concerns with their impact on human resource strategy.

Business strategy	Impact on human resource management
Customer orientation	Personnel competencies should be flexible and adapt quickly to changes dictated by changing customer needs.
Cost-efficiency	Personnel costs are closely scrutinised and personnel numbers are flexibly adjusted in light of profitability and profitability expectations.
Networking	The production process is dispersed in corporate networks, with the result that a sizeable part of the process and employees are not under direct control.
Globalisation	Personnel are increasingly international. The challenge is to manage a multi-cultural environment incorporating different values, cultures and educational backgrounds.

Table 3. Business strategy impact on human resource management.

Companies aim to achieve consistently better results to satisfy their owners' profitability expectations. This can be a source of instability for human resource management because employees are often the only cost item that can be quickly and flexibly adjusted. A poor operating year can mean layoffs, recruitment bans and reduced outlays for personnel development and wellbeing. On the other hand, high profitability expectations put pressure on human resource managers to invest in personnel for several reasons. Especially the demands for high quality, continuous regeneration and flexibility increase the need for professional competence development.

Arenas of human resource management

Bratton & Gold (1999) articulate as follows: "Human Resource Management activities aim to achieve two sets of objectives: improve employee performance and enhance organisational effectiveness." Ulrich (1997) has divided human resource management tasks into four basic types, depending on whether the activity in question is operative or strategic and whether it involves people or processes. Operative human resource management involves ensuring that everyday matters are routinely completed, while strategic human resource management involves safeguarding

business strategies with the help of personnel. The resulting challenges faced by human resource management can be grouped into four task fields: strategic human resource management, change management, infrastructure management (i.e. development and management of human resource management processes and operating models), and personnel guidance and support.



Figure 6. Human resource management task fields (Ulrich 1997).

Human resource management is increasingly a strategic partner to top management. In order to make a relevant human resource strategy it is necessary to research the competence and labour needs stated in the business strategy and compare them to the organisation's situation. In addition to meeting the needs of the present situation, human resource management should actively build the basis for competitive advantage in the future. Traditional human resource management has focused on quantitative labour demand. In competence-based thinking, however, the focus of human resource strategy and human resource policy is on competence.

Competence-based human resource management asks:

- What kind of people are needed and to what amount (quantity, structure, education, competencies)?
- How are the required competencies to be acquired?
- How to recruit the best people?

- How are personnel competencies to be safeguarded and developed (training, evaluation and development systems)?
- How are personnel to be rewarded for their competencies and development (salary and other benefits)?
- How to efficiently support and guide employees in competencies use and development (management, supervision)?
- How to foster organisational wellbeing and make the most out of one's competencies?
- How to commit key personnel to the company?
- How to organise tasks and cooperation so that competencies are shared and new competencies born?
- How are obsolete competencies to be relocated, adapted or transferred outside of the organisation?

The competence development of each and every employee depends on company objectives and prerequisites for success. Personal competencies, after all, are what make company competencies possible in the first place. No such competence exists that could be created in a company without people. For this reason, the key to understanding competence management is to understand personal learning and competencies. Personal learning and competencies are far different from mechanistic calculations, which some companies still use in the definition, classification and evaluation of competencies. As psychological beings, people build their competencies for their own reasons, within their own fields of experience, and within their own social environments. This poses a challenge to competence management, moreover a challenge for which there are no fast and easy solutions. In the final analysis, one comes face-to-face with issues of organisational culture, management style and physical/mental conditions. People learn and use their competencies if they have the capability, desire and stamina for it. We can say that human capital is a product of three factors: competence, motivation and physical/mental condition. If one of the factors is zero then the product is zero.

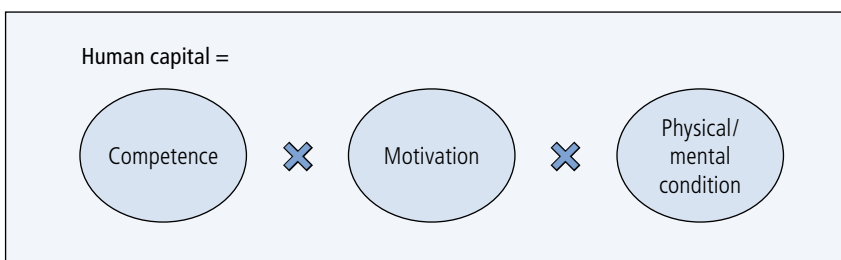


Figure 7. Sources of human capital.

3.2 The knowledge-base as the foundation for human resource development

A company's competence always derives from the competencies of its current and past employees. For this reason the concept is deeply rooted in people. Above all, it involves the ability of people to do quality work and develop company operations within their own areas of responsibility, and also with colleagues and across organisational boundaries. A company's competence is generated via complex combinations of individual competencies, which, moreover, are continually evolving.

Human resource development has traditionally focused on improving the professional skills of employees. It has targeted individuals, groups or the entire staff. Indeed, it is clear that such traditional human resource development activities remain a key means by which companies strive to implement their competence-based competitive strategies. Competence-based strategy sets the frame and direction for human resource development.

Human resource development is always about personal expertise, and therefore the individual viewpoint must be emphasised. It stresses the personal dimension in learning, i.e. that the individuals take responsibility for their learning and that organisations, especially expertise-oriented ones, base their operations on personal expertise. Though an organisation can steer personal development, indicate a desired trajectory for it, create possibilities for learning in practice, as well as foster motivation for learning, one must bear in mind that in the end everything comes down to personal expertise.

Human resource development has traditionally been mostly about the promotion of personal expertise through training. Such programmes have usually been weakly linked to the core competencies or the knowledge base, or at least have not explicitly expressed them. Conversely, a human resource development system that also develops a company's core competencies should begin with the company's vision. In such a case, it is important that those responsible for human resource development have internalised the company's vision. The vision must be broken down to the core competencies that will make the achievement of the vision possible. The definition of the organisation's core competencies is to be done during top management's strategic planning and take into account the existing knowledge base, which will reveal the factors that have led to the company's successes in the past. The human resource development unit also plays an important role in this regard. The unit can provide valuable

information about the knowledge base, i.e. information that is not based on assumption, but on fact.

Human resource development strategies are integrally linked with several organisational factors that characterise the situation of a company. Business strategy is just one of them, albeit an important one. The following factors influence the content, form, and success of developmental efforts: 1) the nature of the company, 2) its strategic business direction, 3) current development strategy, 4) ownership of development, 5) corporate culture and values, and 6) people requirements and capabilities (Campbell 1990).

A person's competencies are a prerequisite for performance and success in one's work.

3.3 Performance management

Any discussion about organisational competence must necessarily also involve a discussion about performance, as it is only performance that makes competence concrete. The term performance management has been in use only since the 1970s, even though performance management has been around for a long time in one form or another. The meaning of the concept varies from one organisation to another and it means different things to different people, depending on their position in the organisation. According to Rummler and Brache (1990), performance management is managing three levels of performance: 1) organisational, 2) process and 3) job performance levels. The organisational level concerns the entire organisation, the process level the performance of workteams, for example, and the job level the individual's performance. Other definitions describe the concept in a more holistic way, are more systemic by nature, and more integrated with the organisation's strategy. Williams (1998) defines the concept as follows: "Performance management is the integrated process of objective setting, appraisal and pay determination which supports the achievement of the company's business strategies. At an individual level it will result in action plans related to performance improvement, career development and training"

Performance is being assessed with increasing detail and over shorter time periods not only among the level of the organisation and its units, but also on the level of teams and individuals. A broader vantage point than performance measurement is provided by performance management, which, in addition to assessment, involves the setting of performance objectives and the determination of developmental and managerial ac-

tions that are required for the achievement of the objectives. Performance management seeks, identifies and develops factors that are believed to lead to the achievement of performance objectives. Performance is always at the root of achieved performance.

Performance means different things on different levels of the organisation, and is therefore the result of a complex combination of factors. These include structural and human dimensions. Ives, Torrey & Gordon (2000) have listed the performance factors as follows:

- Business objectives and strategy, including their thorough understanding
- Organisational factors
- Structure and roles: how have people and operations been organised?
- Processes: how should things be done?
- Culture: what kinds of social and political factors have an impact on operations?
- The physical environment: in what kind of an environment do people work?
- Human factors
- Guidance: what kinds of guidance do people receive?
- Measurement: how is performance measured?
- Means: do people have the sufficient tools to achieve results?
- Competencies: do people have the sufficient skills and information to get the job done?
- Motivation: are people sufficiently motivated?

When performance management aims to improve an organisation's result by improving the performance of its members, the development of competencies is an indispensable tool. The performance of individuals and groups should be evaluated in relation to the vision and strategy, and each performative act should either directly or indirectly support their achievement. A well formulated appraisal system assists in the clarification of job profiles, the communication of expectations, the sharing of performance feedback, and the diagnosis of performance-related problem situations.

Decisions about the state of a given performance factor are made on the basis of performance indicators. They provide concrete points of departure for progress evaluation and the determination of development needs. According to Simons (2000), performance indicators can be used for five purposes: decision making, control, steering, training, learning as well as external communications.

Top management decides on performance indicators and measurement tools on the corporate level. Unit managers supplement these with factors that are important in their areas of responsibility. These definitions play a critical role because people generally pay attention to and work on behalf of matters that are monitored and evaluated, and for which rewards are given. Any precisely defined method that can be used to measure the performance of a success factor can be called a performance indicator. A performance indicator does not therefore need to be numerical. It can, for example, be a report expressing customer satisfaction, in which performance is measured via adjectives. Performance indicators and their measurement also always involve a time dimension. Different factors are measured over different time intervals in order to gain the correct picture of the factor's state and direction of development.

Several models have been developed for performance management, providing an overall frame for the organisation of performance variables. The models divide performance into sub-areas to ease evaluation and the formulation of appropriate indicators. The sub-areas therefore indicate not only what performance consists of, but also what should be evaluated for a proper understanding of performance capability. The performance indicators for the sub-areas are chosen by top management and others responsible for this activity.

The most popular corporate management and monitoring tool in Finland is Kaplan and Norton's Balanced Scorecard. It pools together performance indicators for various sub-areas that are crucial to a company's competitiveness. These indicators are monitored over the long-term at sufficient intervals, providing an overall frame for investigating prerequisites for success.

Kaplan & Norton's **Balanced Scorecard** (Kaplan & Norton 1996) breaks down corporate vision into objectives and the strategies for the achievement of these objectives from four points of view, which are:

- learning and development
- internal processes
- customers
- financials.

The strategies are broken down into interrelated goals in these four areas. The balanced scorecard is a tool that shows the relationships between the goals in the different areas in such a way that they can be systematically managed. The balanced scorecard also helps to ensure that human resource development and the core competencies are taken into account in the various stages of the planning and monitoring cycle.

The scorecard usually contains two types of indices: results indicators and performance indicators. The result indicators do not usually differ between companies and cover factors such as net sales, market share and customer satisfaction. The performance indicators address the operating practices and processes and strategies that are utilised to achieve the desired results. The formulation of a scorecard requires that top management has created a comprehensive strategy that identifies the operating areas important for the achievement of the corporate vision. The analysis of core competencies in conjunction with strategic planning provides the foundation for the setting of goals on part of competencies and corporate development.

The use of the balanced scorecard model also requires the production of results/feed back information. It requires that concrete indicators are set for personnel competencies and personnel development on the corporate, unit and individual levels, and, moreover, that these indicators clearly indicate the difference between the current and objective state. The mapping of personnel competencies provides good support for planning and monitoring based on the scorecard model. The use of monitoring information during regularly held monitoring discussions creates an arena of learning, in which participants are able to comprehend the causal relations between competencies and everyday operations.

The balanced scorecard is a frame of reference which makes the vision and strategy clearer. Its dimensions can help to clarify problems relating to customer orientation, and also to highlight key competence needs. It helps managers to steer strategy, focus on critical business factors, coordinate operations and allocate resources. The balanced scorecard can balance goals in both the short and long term, and also makes use of other indicators such as money. It also helps to communicate the vision downstream in the organisation.

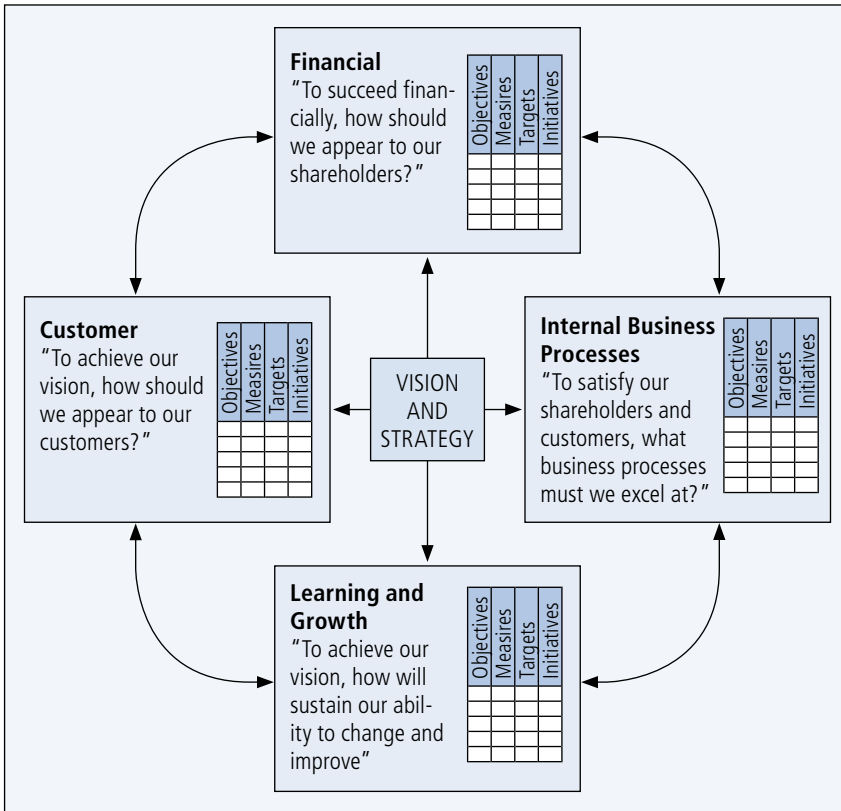


Figure 8. What is the Balanced Scorecard? (The Balanced Scorecard Institute, <http://www.balancedscorecard.org/>).

According to Bevan & Thompson (1991), the performance management system should include elements such as the following:

- a shared vision of corporate objectives or a mission statement, which should be communicated to the employees
- individual-specific performance targets related both to unit level and wider organisational objectives
- regular, formal reviews of progress towards the targets
- self-evaluation of the system's effectiveness and contribution to overall performance
- an emphasis on developing individuals to help them achieve their targets
- a close relationship between individuals and line managers, involving coaching, encouragement and motivation.

Performance appraisals on the personal level are a concrete activity for performance management, and usually make use of specific forms that

document personal objectives and ratings. **Appraisal discussions** are usually conducted at the end of a year, during which a superior and subordinate review the year's developments previous year and set objectives for the coming one. Often salaries are also discussed.

Although many companies state that their performance management system serves both strategic management and developmental purposes, the developmental aspects are often ignored. This may happen because appraisal systems are seldom designed for the needs of personal development. Companies should be more active in developing their performance appraisal systems toward role clarification, coaching, and ongoing communications in order to better help employees develop and improve performance (Silverman 1990).

■ Case

Competence management bears fruit in the City of Vantaa

The City of Vantaa has actively striven to strengthen its strategic thinking and awareness, which the city has identified as an important point of departure for competence management. As a result, the city has formulated a competence management model that has its origin in the city's strategy. When a city unit has formulated its strategy, the current state of competencies (i.e. personnel competencies) is evaluated on a strategic basis. The city's strategy and human resource strategy are closely linked to each other, i.e. they are far from separate. Personnel skills and competencies are an integral part of the city's human resource strategy. Personnel development, for example, has its foundation in the city's strategy, which in turn has its source in the city's service provision and operating strategy.

The city has a thorough and systematically developed management system, in which the Balanced Scorecard plays a key role. Nevertheless, even though it has been in use for several years, there still remains some variation as to how some of the city's different operations have adopted it as well as to the degree of commitment to the process. Day care, for example, makes use of a scorecard that has been formulated jointly by the day care managers of the city's social centres. Interviews completed by Puoskari and Räsänen in 2003 show, however, that the managers do not enjoy the scorecard process, nor do they understand why or what for the information is gathered.

On the other hand, strategy-based competence assessment has received wide support, and competence assessments are already extensively used throughout the city. "We have discovered that competence assessments are most successful in units in which they have been discussed with personnel. The competence assessments involve the filling of a form, but what is most important is that the process is discussed with personnel and that it is linked with performance and development discussions. On this foundation, it is easy to make development plans."

(Puoskari, J. & Räsänen, J. 2004)

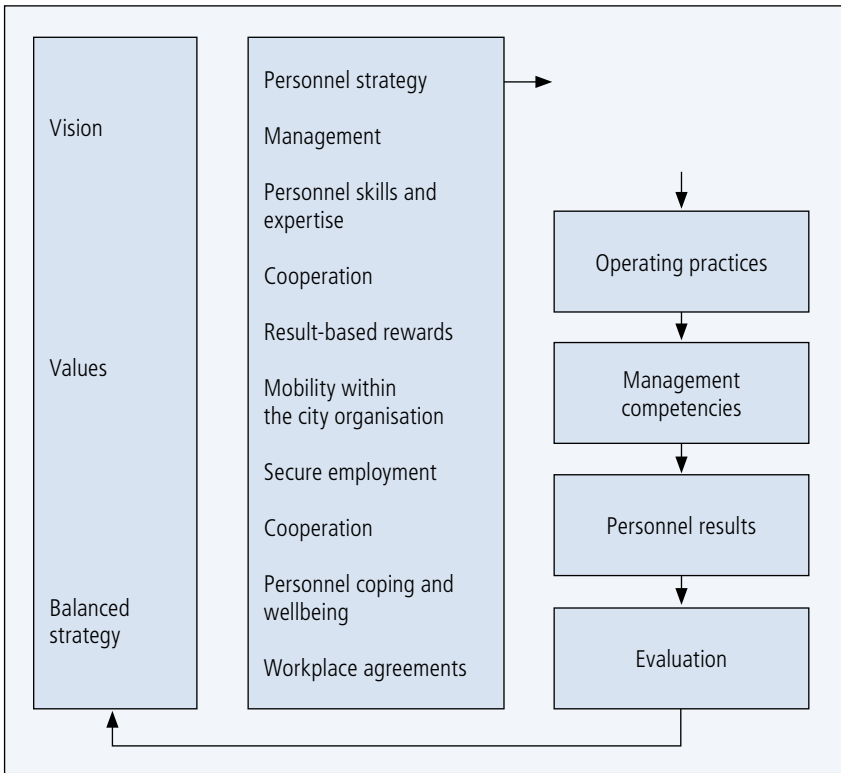


Figure 9. City of Vantaa's personnel strategy

The City of Vantaa offers a rather typical example of a Finnish organisation's experience with the balanced scorecard. Successful integration of the scorecard within management and workplace development activities is a slow process requiring patience. An organisation might have to sacrifice lots of resources for years before a joint understanding about the scorecard's contents, uses and objectives is achieved. Sometimes it has to be accepted that a model different from that of the scorecard is best for some units. Nevertheless, whether the model used is the balanced scorecard or a self-formulated one, it will have an undisputed impact on future operations. The choice of what is measured is important because people usually choose to focus on what is measured.

3.4 Competencies on the personal level

At the same time that a company is formulating its core competencies on the basis of its previous successes and future vision, it should also undertake to **evaluate and map the personal competencies** of its employees, and in this way achieve the best possible **understanding of the current situation**. Personal competencies are too often assessed merely on the basis of a general “feel” of the situation, and hence there is a risk of under or over valuation. Personal competencies can be measured in many ways, and the measurement processes can also be used to identify and strengthen the link between personal and company’s core competencies.

Personal competencies

The notion of competence was first introduced by McClelland in the latter part of the 1960s. In his formulation, researchers should seek to identify variables that produce success, and then to develop an objective means to describe these variables. Following these precepts, his article “Testing for competence rather than for intelligence” (McClelland 1973) provided the foundation for competence theory.

Even though human resource development makes active use of terms such as skills, capability and competence, the distinctions between the terms are far from clear. **Skills** have been defined as specific expertise that can be taught and that is applied in actual job assignments. **Capability** has been defined as the ability to apply skills and competencies in particular contexts in such a way that value added is perceived to be produced (Hogan & Warrenfeltz 2003; Jackson, Farndale & Kakabadse 2003). In its broadest sense, **competence** refers to the sum of experiences and knowledge, skills, traits, aspects of self-image or social role, values and attitudes a person has acquired during his/her lifetime (Parry 1996; McLagan 1998). Competencies have been categorised for example in terms of broad and general skill categories or competency domains like 1) intrapersonal skills, 2) interpersonal skills, 3) leadership skills, and 4) business skills (Hogan et al. 2003).

In addition to skills, capabilities and competencies, the term **qualification** is also used. Qualification is often used to refer to the skills needed to complete various tasks and functions in an organisation. These can be skills acquired through education, at work or in other social environments, as well as personal skills. A person’s professional skills are made up many types of qualifications, which, for example, have been classified as general qualifications, vocational qualifications and task-specific qualifications (Mäkelä 1997). Qualifications have also been classified into

production-based, normative, innovative and social qualifications. The term qualification is often used in task-specific contexts, while competence is linked more broadly to a company's core competencies.

Personal competence assessment and mapping

The assessment of personal competencies is important not only for a company's competencies evaluation and mapping, but also for the individual, as adults are better learners when they can claim ownership of their learning process. Adults are also better learners when they can also claim ownership of the assessment process. This means that persons themselves primarily assess their learning and competencies, and the resulting performance. Assistance in this can be provided by outside parties and various assessment systems.

At its most progressive, external assessment is the assessment of assessment because the best learning occurs when learners themselves can assess and plan their performance and competencies. Self-reflection is not an automatic process even in adults, and therefore the use of various assessment systems is justified.

Why then should the competencies of individuals be assessed? The answers relate to the utilisation of competencies, the planning of development actions, and the encouragement of personal learning. Competence development is not just strategically important, but also important for the allocation of resources. Identifying the competence areas that need to be developed and where management needs to focus more resources is of paramount importance.

Another rationale for competence evaluation in companies is that, the larger the company in question, the more likely it is that different parts of the organisation are not aware of what competencies are available. The allocation of competencies can be difficult in the face of new situations if there is no clear understanding of the competencies that individual people have. Indeed, making a **competence inventory** is in principle just as important as the inventory of any other resource. If there is no clear understanding of what competencies are available and where, they cannot be efficiently utilised nor can one identify which competencies are to be developed. For example, a global service company sometimes needs to find a mechanic who can speak Spanish. If such a company's competence mapping and registration system is up to par, the information therein can be accessed quickly and easily from the company's global database.

Assessment requires attention and effort also on the personal level. A conscious decision to learn is often triggered only when persons encounter some form of conflict in their performance. They may be triggered to

review their competencies as a result of new tasks and objectives, or as a result of failure, uncertainty, or a lack of satisfaction with the results. The conflicts, tensions and unbalanced situations that lead to new ways of doing things are usually discovered only when a conscious effort is made to analyse the expectations, demands and requirements of the operating environment and the company, as well as the current situation in relation to these. People tend to initiate such a process, however, only after they are stimulated to do so. Such a stimulant can be feedback provided by a systematic evaluation system.

Over the past decades, the evaluation of performance and competencies has become increasingly precise and systematic. Instead of solely focusing on the achievement of targets and results, Finnish companies nowadays place great emphasis on performance and competence assessment.

Personal competence mapping

A **personal competence assessment** may happen by using so-called **competence mapping**, for example via 1) a competence classification scheme including 2) competence levels.

A **competence classification scheme** is a model that divides personnel skills into different competence areas and should be firmly rooted in a company's core competence areas. It is good to link the mapping of personnel competencies with the analysis of a company's core competencies by using the same classification scheme for both. Such a classification scheme might, for example, be divided into the following four main classes:

- customer expertise
- operations expertise
- production process expertise
- personal skills

Competence classification on such a general level, however, is not sufficient for the achievement of a thorough competence evaluation and development process. For this reason, classification usually progress from broader strategic and task-based classifications to more detailed descriptions of skills required in individual tasks. A person's or job profile's competencies are best defined by investigating the contents and goals of the tasks in question.

When determining the competencies required, it is crucial to identify what is held to be important and why. Competence mapping is often limited to the personal skills required to complete various tasks, which are referred to as substance competencies. These are competencies that

comprise the core of one's professional skills and are generally specific to a given field. Competence assessment should strive for a broader perspective, however, focusing not only substance competencies but also on competencies that transform individual skills into value added within the organisation's task fields in which the person works. A sales manager, for example, should not only be knowledgeable of the product, pricing mechanisms and sales techniques, but also have social skills, the ability to work under pressure and a thorough command of core processes such as customer service processes.

Levels of competencies

To make competence mapping presumes that the competence areas have been identified and classified and that the **levels of competencies** have been determined, i.e. the competencies have been broken down into distinct levels of expertise. This is based on the premise that competencies accumulate incrementally from low to higher levels. On part of individual skills, one sometimes faces situations in which a particular skill either exists or doesn't exist. In most tasks, however, one can identify a steady progression from the novice to the expert. In competence assessments, such levels are described in many ways. Verbal descriptions are common especially when targeting broader areas of professional skills. Table 4 provides an example of a competence level description.

	Level	Description
0	Clueless	Doesn't know anything about the matter
1	Informed	Can explain in a general way what is involved
2	Novice	Knows the basics, can complete tasks if given support
3	Professional	Knows how to make use of knowledge in tasks
4	Expert	Deep expertise, capable of assisting professionals
5	Best in the field	Expert with national recognition

Table 4. An example of competence levels.

In addition to the example above, competence levels can be assessed via other classification schemes, for example:

- satisfactory – good – excellent
- beginner – good – excellent
- novice – professional – expert
- schemes that characterise the degree to which a person can engage in some type of behaviour or performance: e.g. is aware, understands, knows how to apply, how to analyse, how to combine, how to assess, how to question.

Competence mapping involves the same challenges faced by company measurements in general: the variables measured should apply to key areas, they should be generally accepted as important, and the measurement techniques should be simple and understandable. The measurement system should be as transparent as possible and perceived as fair. If not accepted by the parties involved, measurement indicators can easily lead to a negative impact.

Competence evaluation and the mapping process

One can proceed to more detailed competence mapping by means of the so-called white paper technique, i.e. through discussions about the company's vision and strategies or through various identification techniques that name and classify competencies without preliminary analysis. An alternative means is to borrow from a classification in use elsewhere, choosing applicable competence labels and adding one's own as required. Such ready-made classifications can be sought, for example, from software companies specialising in the field, from consulting companies and from the literature in the field.

Joint discussions without a model or point of departure can be directionless and time consuming, but nevertheless often lead to a better result than if an off-the-shelf classification scheme is used. In any case, a classification must nevertheless be made. Such classifications provide the group and its members with a foundation through which to identify their competencies, their relative strengths and weaknesses, as well as development needs. The classifications also provide direction to the analysis of competencies and their development. In addition, classifications establish a legitimate basis for value discussions and a point of comparison for the definition of development needs.

A person's competencies can be mapped in many ways. For example, such a map may simply involve a list of the competencies a particular task requires, a competencies tree in which the competencies are broken down into smaller components, or a competencies circle in which the relative importance of the competencies is also taken into account. A competencies tree can be made to visually resemble a tree, or alternatively into a mind map, a chart or a table in which the next column always further specifies the competence in question.

One should bear in mind, however, that the development of several competence areas simultaneously is not possible, and that long and difficult lists do not provide a clear sense of direction for a person's development. Many companies, after trying to make very detailed classifications and having found this to be very time consuming and even frustrating,

have turned to use simpler analyses. Indeed, simplicity and focus provide better support to human resource development on the level of the entire organisation. For this reason, it is important that companies discuss and identify their core competencies on the top management level, resulting in an accurate understanding of competencies and development areas.

The mapping of personal competencies also helps an organisation to discover its key strengths as a part of the process in which personal competencies are compiled on the unit and organisational levels. Unit level comparisons lead to the competence profile for the entire organisation. The competence level should be high in key operating areas, and comparison with the vision reveals areas in which competencies should be improved.

Competence mapping takes a lot of time and effort, and therefore it is important to consider the extent to which detailed mapping is necessary. It is also important to ensure that the mapping suits its purpose and that the results are usable. Indeed, despite good intentions, competence mapping has often resulted in little benefit. A study made by PA Consulting (2003) found that active competence management in Finnish companies often involves a detailed formulation and analyses of competencies on both the personal and organisational levels. Their study also found that the resulting detailed competence mappings provided little benefit in practice. At best they were felt to be overly bureaucratic, as every change and new requirement in operating practices was put through the tedious process of competencies mapping and maintenance. Moreover, in some companies the practice of engaging in development discussions, which had at first been felt to be a fruitful activity, had also disintegrated into trifling reviews of competence lists, resulting in a loss of focus as to what were the real development needs. Competencies are about more than the mere enumeration of skills and abilities, and it is important to bear this in mind when engaging in the process.

Nevertheless, despite these cautionary words on competence mapping, one should bear in mind that the activity is an integral point of departure for competencies development, and choosing the right approach requires that the organisation engage in thorough discussions on the matter in advance.

Comparison with objectives

The mapping of personal competencies involves the identification of an employee's competencies in relation to the chosen classification and levels and comparing them with the objectives that have been set for chosen areas.

Personal competence assessments should proceed from the mapping of the current state to the determination of future needs, which is to be conducted with due regard to the core competencies. The process should also include a comparison of the current and future state and the drawing up of a plan for human resource development. The mapping of the current state can be a one-time process, but as a part of human resource development it should be on-going and continuously produce up-to-date information on current trends. The process usually begins with employees making a self-assessment of their skills. This produces a general picture of the individual's current skills in the chosen competence areas. Though one can assess by using language tests for example, personal competencies are usually mapped during development discussions.

In the appraisal of a company's competencies, one should pay due attention the time element. For instance, some competencies may be important for the organisation at present, but their role in the future might not be quite good through forecast. Conversely, some other competencies may not be very important for the organisation at present, but they might be projected to have a great contribution in the future. In fact, it is precisely such considerations that lead organisations to strategically reserve talent for developing needs.

It is usually the easiest and most acceptable to assess competencies in generally recognised areas, such as language skills, but these areas are usually the least strategically significant. Skills such as the ability to communicate and interact, on the other hand, are much more difficult to measure, and yet it is such skills that contribute the most to organisational success. Individual competencies objectives should be firmly grounded in the core competencies, and one should place special emphasis on the competencies that are the most crucial for the achievement of the corporate vision.

Performance assessments typically seek especially to identify the areas in which competencies fall short of the desired state. Effort is then made to fill such **competence gaps** through a variety of development actions. This approach is very practical but has nevertheless been criticised for its negative tone, as it sets one's sights more on weaknesses rather than on strengths.

Competence needs and competence levels on the unit level are determined on the basis of the entire organisation's objectives. The process begins as unit managers, together with other staff members, identify the competencies required by the unit in the future, and record this information as precisely as possible, ultimately on the personal level. In the next stage staff competencies are assessed in relation to the future

requirements. This is usually done during development discussions. In some companies, the process also involves an internal consultant and support person who is familiar with staff compensation issues. Sometimes subordinates complete their competencies analyses independently, using forms prepared for the purpose. The information from the forms is then pooled together to determine the unit's development needs, possibly also on the individual level.

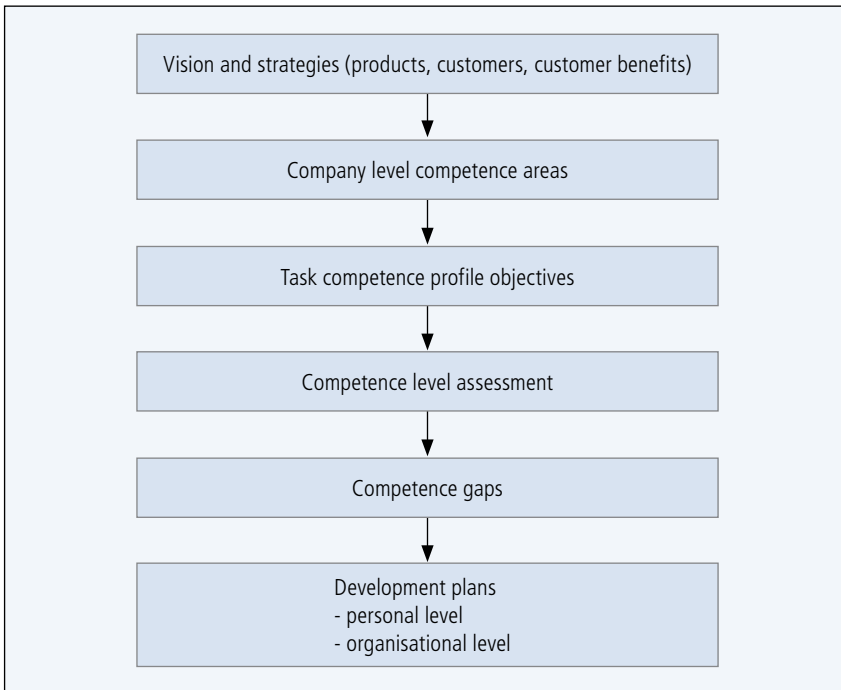


Figure 10. The competencies development process (modified from Hätönen 1999).

It is impossible to precisely measure the competencies needed on the organisational and personal levels. One reason for this is that tacit knowledge is usually visible only in a smooth workflow, and as such does not allow one to identify the components that make up this smoothness with any kind of accuracy. Indeed, there is a tendency not to assess such tacit-level competencies because it is so difficult. When this happens, it is only the assessment of clearly measurable competencies and results that remains. Focusing solely on clearly measurable items can be destructive, however, because it does not allow one to tackle precisely those factors on the basis of which results are achieved. This being the case, it is better that one at least tries to assess hard-to-measure competencies, rather than not do it at all.

Competence assessment and mapping are essential components and points of departure for human resource development on the personal level. They provide important points of reference for development discussions and the formulation of personal development plans. Additionally, they allow people themselves to see strengths and areas for development in their competence areas (Figure 11).

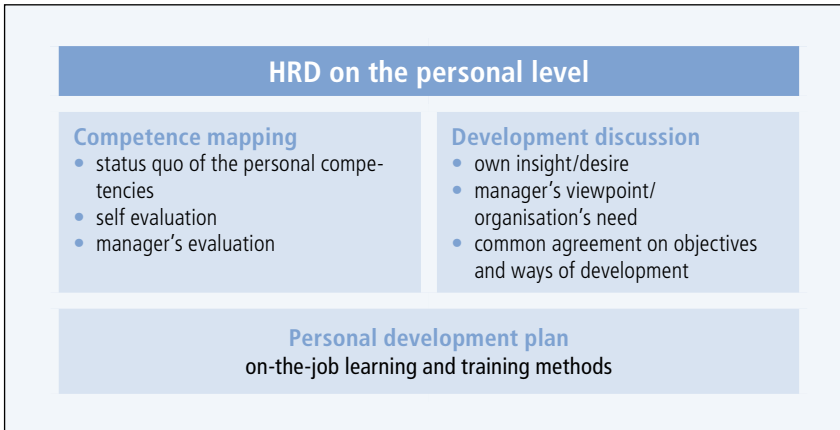


Figure 11. Essential elements of HRD on the personal level.

A key benefit of competence assessments is that they allow the persons assessed themselves to become more aware of the current state of their competencies as well as development needs. Systematic assessments also help to ensure that a person's competence development is in line with the organisation's aims. For this reason the superior's participation in the competence assessments of subordinates is important. Superiors are responsible for ensuring that required resources are available in their areas of responsibility, which will also be reflected in personal-level assessments. Superiors are sufficiently familiar with the tasks of their subordinates to make the correct judgement calls with regard to personal development plans.

On both the top management and practical level, human resources professionals play an important role in competencies assessments because the principles, systems and tools they have formulated provide a solid foundation for competencies utilisation and development on the corporate level. Human resources professionals play an important role especially as internal support people and as tool providers for superiors and units during the competence assessment process. Support is very much also about teaching, educating and training an organisation's members on matters pertaining to competence and competence assessment.

■ Case

ABB Service's human resource strategy relies on a comprehensive competencies development cycle

ABB Oy is part of the Swiss-Swedish automation and power technology conglomerate, ABB Group, which employs over 130,000 people in over one hundred countries around the world. ABB Oy employs approximately 6,800 people, who work in several business area units in different fields of automation and power technology industries. ABB Oy Service (later ABB Service) is one of the business area units of ABB Oy and takes care of the maintenance and product services of the products of ABB in Finland. The services are complemented by a large variety of electric and automation products, although ABB Service does not design or manufacture any products itself. It concentrates on maintenance and installation of products and the optimisation of production efficiency together with the customers at their production facilities. In 2003 ABB Service employed 1,876 people in various locations all over Finland. 1,300 of the total are blue-collar workers and the remaining 576 are employees in managerial and administrative positions.

Instead of having a large human resources department, ABB Oy's human resource function is decentralised. The line organisations are responsible for the implementation, with Personnel Services supporting them in practical matters such as recruitment, human resource data management and training. The line organisations, such as ABB Service, take care of the implementation of the strategy quite independently and thus also the development of competencies.

ABB Service and its human resource personnel have formulated guidelines for the development of competencies. The guidelines give the personnel an understanding of how the organisation develops its personnel, the objectives of development and the methodology used.

Developing competencies at ABB Service is a challenging task. The personnel of the business area unit are divided into over 50 profit units in Finland and providing comprehensive management for personnel is far from simple. Therefore, effective management and supportive tools are required. ABB Service employs a multitude of data management systems, with *Kompetenssi* and *WebHenkari* being the most important ones for human resource management. The *Kompetenssi* database stores all the target profiles as well as the competence mappings of employees. The *WebHenkari* database program, on the other hand, is used in every business area unit of ABB in Finland to store employee information regarding educational background, abilities, skills and courses taken, previous employment history and other personal details of the employee. In addition, all of the development discussions are saved in it.

The management of competencies is described as a cyclic process, which constitutes of four main phases: defining the strategic competencies, competence development, learning, and measuring and evaluation.

Defining the strategic competencies begins with identifying the strategic fundamentals of the business area unit, which are the business area unit itself, its business operations and the strategies of customers and other stakeholders. The competence development strategy is based on the goals and the competitive strategy of the business unit. In the strategy, the competencies of the personnel are divided into three main categories based on their importance and relevance.

Core competencies are the most important ones and have been developed during a long period of time. They create the unique value added for customers, are difficult for the competitors to copy and are also the ones on which the competitive advantages of ABB Service are based upon.

Critical competencies consist of the skills and knowledge required in executing operations. It is considered vital that the level of the critical competencies is at least as high as the levels of the competitors. Finally, **basic competencies** are the ones that are needed in everyday situations in working life such as interaction, human relationships and language skills as well as computer literacy. They are required from all employees in the organisation.

When the strategic competencies have been defined, the next objective is to identify the competencies and capabilities inside the organisation and the ones that can be acquired from partners. The line management and the process owners group the required competencies into competence areas, which are gathered together into a competence matrix in the *Kompetenssi*

database and which are illustrated in a form of a competence tree. Correspondingly, it is also necessary to identify and define the competencies required in the future and the methods of acquiring them, to secure that required competencies are available when needed. In the database, the competence areas are divided into A, B, C and D level competencies. On the A level of the tree are the titles and the lower levels include information that is more detailed.

Target **competence profiles** are created for each job position after the competencies and the methods to acquire them have been identified. The creation of the profiles is centralised and executed by a specific competence development team. The profiles outline the competencies required in the job positions, not the ones required from an individual employee. To maintain the clarity of the matrix, only the most essential competencies and the required levels are included. A five step behaviourally anchored rating scale is used and there are written descriptions and numbers representing each level of competence.

The competencies of individual employees are monitored via **competence mappings**. Prior to the development discussions, all of the workers of product and systems services make a self-assessment of their competencies and save the results in the *Kompetenssi* database. Every employee estimates his own level of competence in each competence area of the target profile on a scale from one to five. The estimation is made easier by using behaviourally anchored rating scales. Should the employees have additional competencies, they can be added to the segment "Other skills", but the profile itself cannot be altered. When the self-assessments have been completed, the employees can view their own competence mappings and the superiors the results of their subordinates. The superiors can print summary reports on the results on individual and group level and utilise them to identify competence gaps and to plan for improvement measures.

At ABB Service, **development plans** are made on three levels: individual, profit unit and area. On the profit unit level, the head of the unit prepares the plan before the development discussions are held. Together with the personnel, he discusses the plan, the results of the competence mappings, the competence gaps and the methods to acquire the required competencies in a departmental meeting. The head of the unit defines the competencies required for implementing the operational plan, the level of current competencies and how the needed additional competencies are acquired if necessary. The measures chosen are written down in the development plan and are communicated to the workers and employees in the development discussions by their own superiors. The superior is also responsible for the implementation and follow up.

The individual development plans are formulated in the development discussions. The plans are based on the objectives and interests of the individual employees as well as on the development plan of the profit units. The objective is to develop the competencies along current work assignments and to prepare for new challenges. The development plan and the need for training are written down in a development discussion form.

When the development discussions in the area have been held, the management group of the area discusses the development plans of the units and the summaries of competence mappings and development measures required. Representatives of the competence development team and the *Kosti* training system are present in the discussions, when the development plan of the area is created. The plan defines the strategic priorities of the development and the timetable for the training sessions, which will be provided.

ABB Services actively monitors its competencies developments, which is seen to lower costs and improve the allocation of developmental resources. Overall, the development process is evaluated by means of a learning index the organisation has formulated for itself. The index consists of three factors: the level of competencies, customer satisfaction and employee satisfaction. Of these, the level of competencies is measured on the basis of the average result of the self-assessments. Customer satisfaction is measured as the share of satisfied or very satisfied customers. And finally, employee satisfaction is determined on the basis of the number of personnel who are satisfied or very satisfied with the competence development process.

(Kaukoranta, J. 2004)

4

Human resource development

■ Human resource development (HRD) is a complex process in which knowledge accumulates through training, education as well as work and life experiences. According to Pierce (2001), it is the systematic maintenance, improvement and broadening of competencies, knowledge, experiences and skills and the development of personal qualities helpful in the execution of the organisational role and task. It has also been defined as an attempt to improve personal effectiveness through a planned and deliberate learning process (Mumford 1987) and a conscious and systematic process to control the development of human resources in the organisation for the achievement of goals and strategies (Molander 1986). Development involves changing skills, knowledge, attitudes, or behaviour. At the same time it should support the organisation to achieve its strategic objectives and build a culture suitable for this direction (Tichy and Devanna 1986; Vicere 1997).

Human resource development is an integral aspect of competencies building, development and regeneration, even though it does not cover all aspects of competence management. The traditional **performance areas** of human resource development have been understood to involve:

- improving task performance
- enabling and supporting change implementation
- improving the quality of operations
- promoting creativity and innovation
- enhancing the employment prospects of individuals.

4.1 Strategic aspects of HRD

Human resource development has often been viewed as a cost rather than an investment. This is, however, certainly changing in organisations today, but not as fast as could be expected. One of the main reasons is that it is difficult to show a causal link between HRD and organisational success.

It is difficult to show a payoff from HRD in the short term, and HRD performance indicators are difficult to define precisely.

For human resource development to contribute to business success more effectively, it is increasingly argued that it should be linked up front with business strategy. McClelland (1994), for example, researched the topic and found that organisations generally do not consider development issues to be part of their competitive strategy formulation. He also found that organisations that explicitly linked HRD with strategy formulation did get a payoff in terms of gaining and maintaining competitive advantage.

Luoma (1999) defined three main ways that human resource development can relate to business strategies (see figure 12). The first approach involves organisations that do consider HRD at a strategic level, but nevertheless view its role essentially in a reactive way. According to Luoma this approach is the **needs driven HRD** approach, where the aim of the HRD strategy is to identify and remedy skill deficiencies in relation to the organisational strategy. The task of HRD is to provide background support and service for the strategy. This is the most traditional role of HRD. A second approach to HRD strategy is **opportunity-driven HRD**. The impetus in this approach is external rather than internal. It applies development ideas in a more general way, rather than specifically targeting current business objectives. In this approach, the learning potential of all employees is emphasised. Although the thrust of the HRD strategy may be to reactively meet the needs of business strategy, it may also be proactive in influencing the formation of future business strategy. HRD professionals in such organisations are open to new developmental opportunities and intervene accordingly in their search for excellence. The third approach, **capability-driven HRD**, is based on the idea that organisational competence is the key to sustained competitive advantage. This approach is proactive in that it focuses on the desired state of the organisation as defined in its future vision. HRD works on behalf of creating, strengthening, and sustaining the competencies emphasised in the business strategy. Organisations focusing on this approach seek competitive advantage primarily from capabilities and competencies, and HRD takes place in advance. There is also a fourth approach, which is a mixture of the three approaches above.

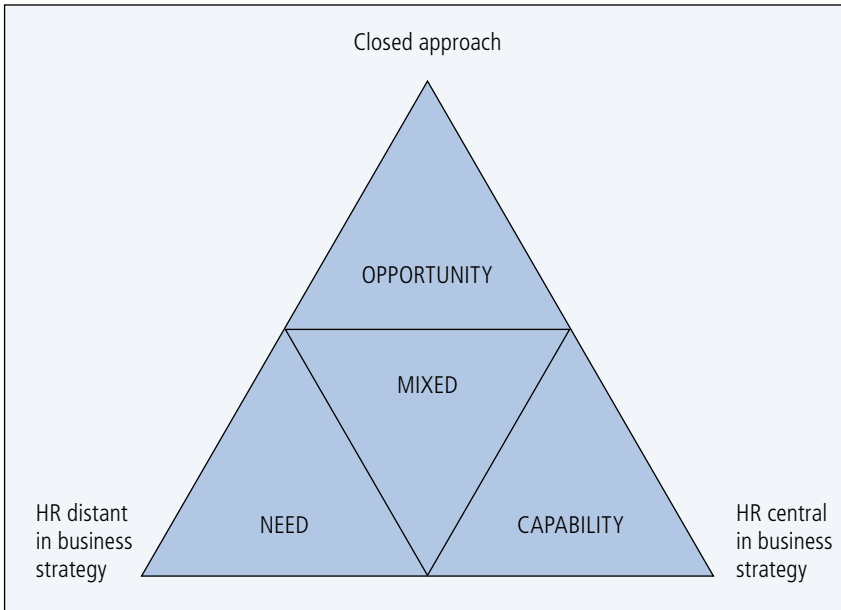


Figure 12. A framework of human resource development roles (Luoma 1999).

In many organisations, a key challenge in the integration of human resource development with competencies management in line with the strategy and vision is to find a way to incorporate the process into annual planning on different organisational levels. In this regard, it is important that the individual and corporate point-of-view merge in the planning process, and that they fully integrate with operations and human resource development.

4.2 HRD paradigms and trends

There are many different **approaches** to human resource development, although all approaches can generally be placed on continuum between a **behaviourist idea** and a **constructivist idea** of human resource development. The former sees HRD as a process of acquiring skills, with no emphasis on the process of deeper understanding, whereas the latter sees HRD as a process of constructing mental models appropriate for interpreting organisational phenomena, with no importance placed on concrete skills (Hogan et al., 2003). It contains the idea that people in organisations gradually build their experience through specific learning incidents, internalise this experience, and then use it, both consciously and unconsciously, to guide their future action (Burgoyne and Hodgson 1983).

Some development is always unplanned. It involves accidental learning in every-day work. Additionally, a great deal of learning occurs through transference – from one human watching another (Bandura 1997).

The **behaviourist model** continues to hold a strong position in corporate human resource development. This is often simply because arranging for courses to meet general competence gaps is an easy and familiar process. Human resource development in companies is essentially a two-fold process: human resource professionals first gather information about what competencies are needed from the company and its operating environment, and then organise appropriate training programmes and courses to meet this need. An employee then simply chooses suitable items from such a course offering, or the employee's superior does so. Sometimes training is considered as a reward for good performance. It is indeed common that both superiors and subordinates consider competence development as nothing more than choosing from a list of offered courses. According to Vicere (2000), up to ninety percent of all corporate education is still in the classroom.

The **constructivist model** argues that effective learning is just an active experience that challenges the skills, knowledge, and beliefs of participants (Keys and Wolfe 1988; Hernez-Bloome and Huhges 2004). On-the-job experiential methods include action learning, coaching, mentoring, tutoring, sponsorship, role modelling, job enlargement, job rotation, secondment, special projects, reflective groups, task forces, problem solving team exercises, deputising, networking and visioning (Woodall and Winstanley 1998). Off-the-job methods comprise education (readings, short courses, seminars, educational programmes such as an MBA), in-company training (lecturers, workshops, seminars, 'academies'), and external providers (specialist packages, customised and outdoor development) (Woodall et al., 1998).

During the last two decades HRD has seen many changes: training has shifted away from external schools towards in-house programmes; content focus has shifted from functional knowledge to topics such as strategy, change management and leadership; the programmes have changed from teacher-centred to learner-centred; and there has been a trend toward shorter, large-scale, cascaded programmes involving staff at multiple levels of the organisation and not just on the top (Vicere 2000). There has also been a shift in perceptions away from programmes and toward work experience-based methodologies involving job rotation, taskforce and project assignments, action learning, coaching, and mentoring (Vicere 1998). During the late 1990's, there was also a trend towards using technology

and distance delivery in management development, but it is still waiting for a breakthrough (Vicere 1998, 2000).

Personnel development has traditionally been the responsibility of the human resource function, and in larger corporations service and development responsibility is usually allocated to a human resource development unit. In recent years, however, responsibility for competence availability and development has increasingly become the responsibility of the entire organisation. Each unit manager must ensure that sufficient competencies are available all the time.

4.3 Contents of HRD

Human resource development is a component of a broader competence development system, which includes the definition of competence strategies, the identification and assessment of required competencies, the determination of development needs, and development discussions.

A company needs to engage in systematic human resource development irrespective of how far learning culture has progressed in the organisation. Development actions targeting employee competencies must be planned, implemented and assessed. Hätönen (1999) characterises human resource development as a process involving the following stages: needs analysis, programme implementation and results assessment (Figure 13).

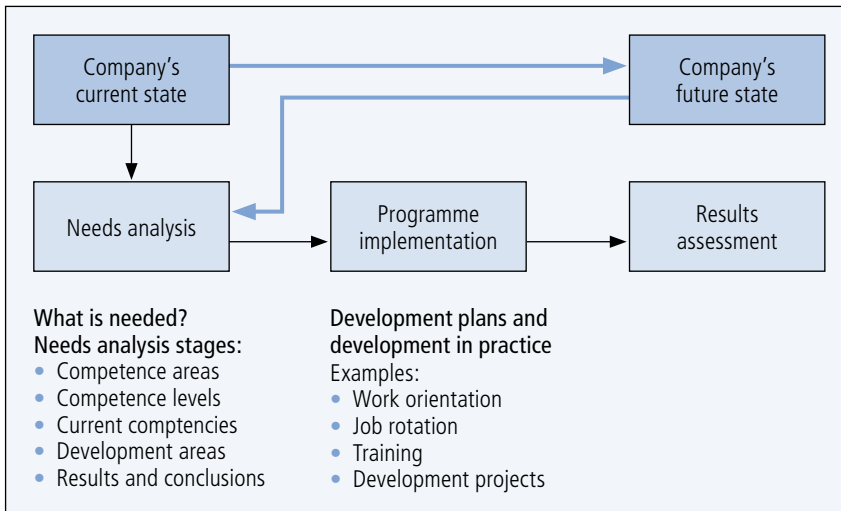


Figure 13. Human resource development stages (Hätönen 1999).

The process begins with needs analysis, which is based on competence area analysis and the determination of current competence levels. Identifying the gaps between current competencies and future needs indicates the areas in which development actions should focus (see section 3.5.). After this, development plans are formulated. They are compiled on the corporate, unit and personal levels. The development plans place in writing the agreed development areas, objectives, means, timetables, persons responsible as well as criteria for progress evaluation. The plans can be separately divided into short-term and long-term plans. Finally, the programme implementation stage supports the implementation of the development plans and makes use of various developmental methods. Their applicability and results should be assessed both during and at the end of the process.

It is very rare that the results of human resource development can be accurately measured in terms of money or other financial indicators. Due to a lack of better efficiency indicators, cost-efficiency has come to play an increasingly important role in the choice of development methods, and when wrongly understood it can easily lead to the use of actions that are cheap and easy to organise (Goodge 1998). Such actions are not necessarily the best choice.

Even though it is difficult to accurately measure the results of development actions, it is nevertheless important to set competencies development objectives. Only after goals have been set can one choose the best methods for their achievement. It is very seldom that companies analyse the connection between goals and methods with sufficient care. This claim is supported by Mabey and Grey (2001), who studied the success ratios of development programmes in companies. Only 19 % of the companies in their study achieved their objectives nearly or in full, while 43 % achieved merely neutral results. 37 % succeeded poorly or made no progress at all. The assessment of development project results is addressed in more detail in section 4.7.

The effectiveness of development activities depends in part on organisational conditions such as support from top management (Facteau, Dobbins, Russell, Ladd & Kudisch 1995; Ford, Tracey, Tannenbaun & Kavanagh 1995), and the learning climate in the organisation (Ford & Weissbein 1997). On order to be efficient, development should be a systematic process instead of occasional. As a whole, human resource development has so far focused very strongly on developing individuals. Nevertheless, activities in organisations are more a team function than the function of heroic individuals (Leibman, Bruer and Maki 1996), and

therefore the development approach should include both teams of skills and teams of learners (Hernez-Broome et al. 2004).

4.4 Development discussions

Development discussions between superiors and subordinates acquire a systematic nature when they also involve the mapping of personnel competencies, balanced scorecards, and agreement on personal development goals. Development discussions are a part of the management system, and are used to agree on personal goals, performance criteria and development needs (Valpola 2003). It is essential that the development discussions combine both personal and company goals. Superiors can use the discussions to tune subordinates to aim at the same goals (Ronthy-Östberg and Rosendahl 2000). Development discussions are basically the same as appraisal interviews in performance management. In Finland, development discussions can be said to focus more on development than is done in traditional performance appraisal discussions. For this reason the prior term is usually used in the country. Nevertheless, one should bear in mind that development discussions share many elements with appraisal discussions.

Development discussions are widely rooted in Finnish organisations, and for many companies they are a tradition. Approximately 60% of Finnish employees participate in the development discussion system (Psycon 2005). Indeed, development discussions fit in easily with Finland's democratic business culture, as the idea behind the discussions is that the subordinate is an expert who has a lot to give to the company, the superior is there to listen to what the subordinate wants to say, and after discussions they together make an agreement concerning the tasks, developmental projects and targets for the coming years. Development discussions are a part of democratic leadership. The idea is to discuss and agree, not to command.

Development discussions have an important role in implementing the vision into everyday work. The discussions help every employee to see more clearly what he or she is supposed to do and achieve and how his or her achievements will be assessed. The discussions offer the employee a very good situation to be able to have an impact on his/her own work. Employees who feel they have an impact and can cope also perform better. Development discussions can also help to eliminate rumours and lack of knowledge (Valpola 2000).

Development discussions usually include five parts (see Sydänmaanlakka 2004):

- discussions concerning results, over the previous period
- discussions concerning goals, i.e. discussion of goals and actions for the next period
- competence assessment, in relation to near-term and long-term tasks, and also the updating of competence maps
- discussions about development goals, in which development needs are stated and development plans agreed
- feedback from the employee, to help the manager develop as a leader.

From the managers point of view the discussions are a way:

- to develop the organisation and its effectiveness
- to guarantee that everyone shares the same goals
- to guarantee that people work in the right jobs
- to monitor results, and effect of personal inputs.

From the employee's viewpoint, development discussions will have several benefits such as (Ronthy-Östberg and Rosendahl 2000):

- to have the possibility to talk with the manager, superior
- tell about the real situation in the working place
- tell how the team is working
- give ideas on how work could be developed
- to inform about one's needs for personal development.

To make the discussions more meaningful than everyday discussions it is important that the matters discussed also have relevance to the wider perspective of the company's operations and vision. The discussions give room for feelings, experiences and value discussions, so they will go beyond the comfort zone and can be very demanding. That is why managers and employees sometimes avoid them. They feel uncomfortable about how they will cope with the discussions. Participants on both sides may be afraid of the feedback and how to handle the situation. As a result, it is not at all rare that either the manager or the employee tries to skip the discussions.

During development discussions the subordinate gets together with his or her superior to discuss the subordinate's performance and future goals in agreed upon areas, with the help of a scorecard. With the aid of the subordinate's personal competence map and profile, the discussions should identify which of the subordinate's competencies support the achievement

of goals, in which areas there is room for improvement, and which of the subordinate's untapped skills could be put to more efficient use for the benefit of the organisation. Discussions on these matters should lead to the formulation of a personal development plan.

Development discussions can support organisation-wide competence and human resource development through the compilation of unit objective and development discussion reports on the basis of the scorecards. Such reports should indicate the most urgent personnel development areas and the key personnel strengths, and also sketch concrete action proposals.

Many companies have initiated campaigns to improve the quality of their development discussions. These companies have discovered that though it is relatively easy to set objectives and indices, the achievement of something concrete with respect to human resource development is much more difficult, with the result that discussions often remain vague and developments remain difficult to monitor. These companies should bear in mind, however, that personal competence mapping offers a concrete point of departure for the discussions: e.g. what is the current level, and what are the areas for improvement. And when one also incorporates scorecards into this process, one attains a valuable component to the human resource development system, in which personal goals are linked to corporate goals.

It is also a challenge for the manager to create an atmosphere of creative and positive discussion, even if difficult matters are on the agenda.

Development discussion should produce a **personal development plan** for employees. Such a plan should contain a definition of the employee's current state in relation to key company competencies, the employee's development objectives, needs and methods, as well as possible difficulties and barriers. Development plans merge personal and organisational goals. As such, they address not only the competencies required in the fulfilment of current tasks, but also those required in the future. The measures that result from the development plans should also be monitored, in which case they can also be used to measure the success of competence management in general. When making the plans, development actions should also address the long-term point of view. A personal development plan that is annually updated and whenever duties change provides direction for channelling resources over the long-term. It also avoids situations in which an employee is suddenly found to be unqualified for his or her tasks. (Sydänmaanlakka 2000.)

■ Case

The Finnish Fair Corporation's strategy includes active sales training for its personnel

The Finnish Fair Corporation's business idea is to offer industry and trade with a high-quality marketing tool. To fulfil this purpose, the corporation organises national and international fairs and exhibitions in Finland and also engages in fair activities abroad. In addition, the corporation rents its premises for conferences and public events.

The corporation's vision is to ensure that fairs remain a key marketing tool with customers, particularly due to their ability to promote the establishment and maintenance of customer contacts. The corporation's key values are as follows: customer-orientation, professionalism, diligence, honesty and healing ability.

Most of The Finnish Fair Corporation's staff have a vocational degree and a quarter have a university degree. The corporation has formulated its strategy, according to which its primary assets are its property and brands, with personnel coming in second.

The corporation's personnel strategy integrates closely with its business strategy. This is made visible in practice, for example, in that the corporation strives to actively develop the sales competencies of its personnel because it is felt to be important that all employees also know how to sell. This objective is a challenge to the organisation because all new personnel must also be trained as sales persons.

Personal development discussions are used systematically and they are also actively used to implement the organisation's vision and strategies in practice. Maria Illukka (2003) studied the corporation's development discussions practices, and came up with the following results:

Development discussions are an established practice. A survey showed that 22 % of respondents felt that they produced favourable results, while 61 % felt that they produced satisfactory results. Over 90 % of the respondents found the discussions to be pleasant, while 9 % found them somewhat unpleasant. Of the respondents, 89 % characterised the discussions to be more relaxing than annoying. 92 % felt that they could discuss their opinions openly. A majority of 67% considered that the current intervals (once a year) to be appropriate.

Overall, it was felt that the discussions should better integrate with personal development plans. On paper, personal development plans should be a part of the discussions, but only 14 % noted that such a plan had been compiled, and only 11 % had agreed with their superior on the implementation of such a plan in practice.

(Illukka, M. 2004)

4.5 Unsystematic workplace learning

On-the-job learning mostly occurs informally and in part is not noticed. Such learning derives from one's observations and experience. It is usually instrumental in that it seeks to answer "how is something to be done" (Mezirow 1996).

The efficiency of such **informal learning** can vary to a considerable degree, however. The more aware one is about one's skills and learning, the more efficient the learning process becomes. Räsänen (1996) has divided an on-the-job learner's awareness into five basic types, each with a different awareness level. Fully *unconscious learning* is called reactive learning,

in which emotion plays a strong role. In *model learning*, awareness is still weak or remains unconscious. In *try-and-fail learning*, one is aware of the task and objective but not with the task's underlying principles because it is still based on guess work. *Experimental learning* involves an awareness of the task and objectives as well as conscious planning of the task. *Conscious learning* is the most advance level. In this type of learning one has a clear overall understanding of the task and is aware of the principles required for its successful completion. The principles carry over to similar tasks, in which what was learned can be generalised and applied with favourable side effects.

Informal learning can be boosted by raising the **awareness level**, which is an important challenge at the workplace and indeed for the entire organisation. The more aware one becomes of one's learning process, the better one becomes in learning to learn, which has also been identified as a key factor in job success. Awareness improves one's ability to organise tasks as well as choose the appropriate tools when faced with new tasks. Learning is therefore a skill that can involve varied levels of competence.

Improving one's awareness is best achieved through **discussions**. As a result, workplace meetings and development discussions should also address learning. The investigation, classification, assessment and planning of learning are factors that people seldom choose to consciously tackle if not given an external impetus to do so. It is easier to discuss these matters if one first learns about how learning takes place.

For one to develop in one's tasks and profession, it is crucial that one also has the ability and motivation to assess one's performance and then to develop one's skills on the basis of the findings. External assessment can by no means replace inadequate self-reflection and personal initiative to excel. People can only be supported and provided with a sense of direction in the assessment and development of their personal competencies. This can be provided by management through discussions with subordinates. Good examples are development discussions and competence mapping systems.

Self-assessment involves the process of **reflection**. This is the process that takes learning ahead and is also its prerequisite. The better a person is aware of one's current state of competencies and one's own ways of learning, the better he or she can take charge of the learning process. Reflection indicates an "inquisitive state-of-mind" with regard to the past and current state of affairs. It can take place while performing tasks and address the task at hand, or it can take place after the fact and address past activity. Ruohotie (1998) considers that real-time on-the-task reflection is absolutely necessary in an environment of continuous change.

Such reflection should not only address current tasks, but also take into account relevant matters in the company and the operating environment in general.

The most advanced level is critical reflection, in which the person is able to critically evaluate assumptions about the nature of the problem, the methods chosen and the outcome of the given task, as well as the assumptions on the basis of which the problem was set in the first place. Learning that is based on critical reflection leads to a thorough and fully internalised understanding of one's experiences in new situations (Ruotio 1998). The ability to reflect is crucial in whether prior experiences turn out to be a benefit or a hindrance to new learning.

When engaging in reflection, people assess their performance in relation to their internalised standards, which can be based on externally set performance criteria, personal standards or social comparison (Bandura 1977). Externally set performance criteria result, for example, from company measurements that define a set quantity-quality ratio within a specified period of time. Personal standards refer to any personal goals, for example the desire to improve on past performance. Points of comparison are usually taken from the environment, for example by comparing one's performance to one's peers or to someone who is valued or even idolised. Internal standards are raised or lowered depending on one's successes and failures. External rewards also have an impact on the extent to which a person strives to improve his or her performance. The reward need not be monetary, but can be based on recognition by one's peers or simply the feeling that one is appreciated for a job well done.

4.6 Methods in human resource development

In **competence building** the central mechanism is to be networked with different knowledge sources, while in competence maintenance internal mechanisms of the organisation are most important. In competence leveraging the transfer of technological and operative competencies is quite a straightforward activity. In general, the dynamics of competence management varies according competence areas, but a common feature is "learning-by-doing".

Organisational learning can be enhanced by different kinds of job and organisation related arrangements. Thus, organisation developers should focus on the development of working practices and culture, in order that learning would take place as a part of work itself. It is often thought that human resource development means training but that is only one way

to do it. Several management practices are crucial when planning competence development, while many of them are not so evident. Specific development methods include:

- clear objectives
- a company culture that supports learning
- job rotation also between departments
- intra-departmental cooperation
- staff possibilities for participation
- specialisation using job descriptions
- creating specialist teams
- using specialist resources
- managing information
- projects
- training
- collecting new ideas and experiments
- recruitment.

There are several categorisations of **learning and development methods** in the literature. Mumford (1997) has categorised unplanned and planned development into three types: 1) wholly unplanned accidental learning, 2) planned on-the-job learning, and 3) planned and programmed development processes outside every-day work. Yukl (2002) identified three ways to acquire competencies, which all represent planned learning: 1) formal training (and education), 2) developmental activities (for example coaching, mentoring, and special assignments), and 3) self-help activities (for example reading books, viewing videos, listening audiotapes, and using interactive computer programs).

Development methods can be categorised with help of two dimensions: individual level – group level and informal – formal. Some methods concern only one manager at the individual level, for example a tailor-made part of his/her development plan. Often management development is planned to take place in groups of several managers. The developmental action then focuses on the development of many managers at the same time and it is often at least partly cooperative in nature. Some examples of the focus of development methods are illustrated in figure 14.

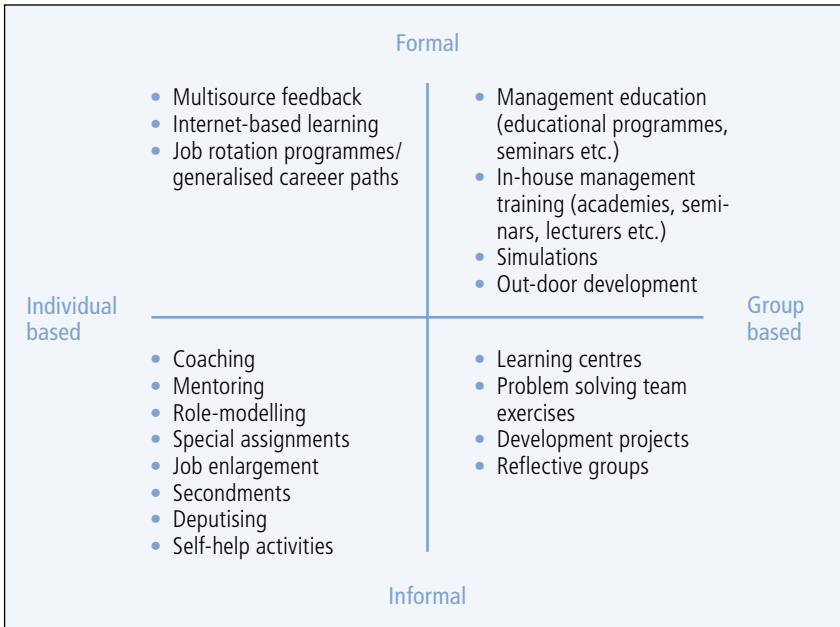


Figure 14. Examples of different management development methods (Viitala 2005).

4.6.1 Individual based development activities

On the job development activities

Personal competencies can be developed **on-the-job or through means closely linked to the job**. This can be organised via 1) familiarisation, 2) development through work: challenging job assignments, job rotation, stand-ins, job enrichment, 3) development through projects: special projects, development projects, 4) development through steering: coaching, tutoring, and mentoring, and 5) action learning.

1) Familiarisation

Familiarisation is about transferring organisational knowledge to new employees. The goal is to transfer as much of the organisation's knowledge to the new employee so that he or she can contribute fully to the organisation's efforts as soon as possible. Familiarisation is also a socialisation process, in which the new employee learns to adopt the organisation's values, culture and rules governing behaviour. New employees also learn about the organisation's goals and ways of working, the external operating environment and outlook for the future. Moreover, it is important that new employees learn to know their colleagues, customers and tasks, and also know their responsibilities and what is expected of them (Viitala 2003). In

this regard, Dessler (2003) emphasises that it is important to reserve time also to discuss how problem situations should be solved. The important thing, however, is that the newcomer also brings along something new, and does not passively adapt to the situation at hand.

Responsibility for familiarisation always rests with one's immediate superior, though support can also be provided by qualified persons chosen for the task. Colleagues and other staff, too, participate in the familiarisation of new employees. It is good policy to prepare a familiarisation programme to new employees even if the organisation does not have a human resource department or individual specifically in charge of familiarising newcomers. Familiarisation programmes aim to ensure that familiarisation also covers information about the organisation's objectives and expectations. It is not enough that familiarisation programmes familiarise new employees with concrete tasks alone, but should also communicate organisational practices and objectives in order to ensure that the newcomer gains a comprehensive understanding of the products, customers and the general operating environment.

2) Development through work

Challenging job assignments are a potent form of human resource development. International assignments are just one example. They can also be a part of different kinds of development programs. **Job enrichment** provides employees a wider range of work. This challenges them to develop their competencies and also benefit from them.

Deputising is also a practical way to promote the development of in-house skills. If a key employee gets ill, for example, the employee's superior can arrange for someone to take over the duties from within the organisation's own personnel. This allows the organisation to avoid production breaks and poorer quality whenever key personnel are not present. Such stand-in systems can be built on the principle of reciprocity, in which two employees agree to keep each other up-to-date on each other's job situation. Stand-in systems can also be built around various chains or the help of designated rotating substitutes. Whatever the system chosen, it usually develops the competencies of its participants.

Job rotation programmes are a type of experiential learning in which employees are assigned to work in a variety of different sub-units of the organisation for limited periods of time for developmental reasons. Reported outcomes of job rotation programs have included a stronger belief in the value of viewing problems from different perspectives, higher mutual respect for other functions, and a greater appreciation of the need for collaboration (London 1990). On the other hand, the activity may

cause lower productivity for rotated individuals as a result of the normal learning curve, and also lower satisfaction for persons who are required to assist the managers (Campion et al. 1994).

Cross training is familiarising employees with each other's tasks. It improves organisational flexibility and efficiency because it allows the organisation to direct competent employees to take care of process bottlenecks, for example. The ability to manage many tasks is becoming more important as work is increasingly organised around teams, which requires that members can complete each other's tasks as required, or at least participate in them. Learning new skills also brings variety and challenge to the job. It builds professional skills and improves chances for job mobility.

3) Development in projects

Projects and development undertakings offer excellent development opportunities for employees. The groups involved are often cross-organisational, which allows for a natural transfer of knowledge across functions and units. Projects promote a comprehensive understanding of the organisation, and also allow personnel to gain practice in their managerial skills. Indeed, projects promote career development while functioning as efficient grounds for professional development.

4) Development with steering

In the last two decades there has been a marked interest in the use of formal **mentoring** programmes to facilitate human resource development (Noe 1991). Mentoring is a relationship in which a more experienced employee (mentor) helps a less experienced one (protégé/actor). Mentoring provides two types of functions for the protégé/actor: a psycho-social function (acceptance, encouragement, coaching, counselling) and a career-facilitation function (sponsorship, protection, challenging assignments, exposure and visibility) (Kram 1985; Noe 1988).

Coaching is yet another type of developmental intervention for employees in business organisations, which is increasing in popularity as management development method. Coaching involves practical, goal-focused forms of one-on-one learning, and ideally behavioural change. It is typically defined as a committed, long-term relationship in which a senior person supports the personal and professional development of a junior person (Hernez-Broome et al. 2004). A person who receives coaching is usually a high-level executive or a specialist and the person who provides the coaching may be an external or internal consultant. The primary purpose of coaching is to facilitate learning of relevant skills and to provide

advice about how to handle specific challenges. A coach is not a permanent mentor, but he is usually employed for a limited period of time.

Job counselling aims to improve the professional skills of those involved, their personal growth, and also their ability to manage problem situations at work. Job counselling is used especially in jobs involving personal relationships, for example in nursing and teaching professions. Job counselling can also be used to promote wellbeing at work.

Job counselling involves the creation of a learning situation in which participants learn more about themselves and their relationship with their work and the workplace organisation. The job counsellor's job is to help the participant discover his or her best way of working. Job counselling can also focus on finding a solution to a particular difficulty encountered at work, or to fix matters that hinder performance. Job counselling can be organised on the personal, group or community levels.

Hardships are also often efficient situation for learning. Setbacks can teach important lessons for anyone at work if he/she tries to figure out what they must change in their behaviour in the future to avoid repeat occurrences (London 1990). If this kind of evaluation is conscious and systematic, it is even more efficient.

5) Action learning

Action learning is an approach which combines formal training with learning from experience (Rifkin, Fineman and Ruhnke 1999). It refers to a variety of development approaches in which employees use issues from their own companies as the basis for learning (Conger & Xin 2000). Three kinds of objectives are sought: delivering measurable organisational results, communicating learning specific to a particular context, and developing more general skills and capabilities (Palus and Horth 2003). The entire process is designed to facilitate open-ended learning and to create the capacity for intelligent action rather than contributions to formal knowledge (Morgan & Ramirez 1983). Individuals or teams conduct field projects on complex organisational problems requiring use of skills learned in formal training session, often within a certain time frame. It provides an educational structure within which a learner can reflect on critique and learn from an undertaking (Conger 2001). Company-based exercises have been assessed as more cost-effective than “off-the-self” exercises (Goode 1995). Most action learning projects are linked to formal training, but an alternative approach is to have learners link projects to a process of mutual coaching and mentoring (Smith 1990).

Conger and Xin (2000) have noted that we should recognise the current limits of action learning, where most experiences are built around a single

experience. They suggest for example *online or internet-based learning* as an important supplement to action learning processes. Technology will enhance the emergence and sharing of knowledge among participants via such venues as chat rooms, thought leader access, e-learning advances, e-mentoring/shadowing, and business simulations. While technology is useful for some aspects of human resource development, it cannot replace the importance of bringing learners together to deepen their relationships and their learning experiences (Hernez-Broome and Hughes 2004).

Development processes outside every-day work

In addition to developing personal competencies by means of work related assignments as presented above, personal competence development is also often supported by methods that require employees to stop working for a period of time or that take place **fully outside the workplace**. Only a part of personnel development activities can be arranged outside the workplace, however, because such activities are often difficult to organise and expensive. During periods of fast change, external training is also often too slow a method to ensure a sufficient pace of competencies development. Given these difficulties, it may be useful to resort to the old 20/80 rule, according to which at most 20 % of an organisation's personnel development can be implemented outside everyday tasks and the organisation, while 80 % can occur at the workplace, often independently.

Development activities outside the workplace include lectures and information sessions, short and long training programmes, education programmes (for example an MBA), benchmarking, study trips and visits, and self-managed learning.

Training remains a popular and important means of personnel development. In European comparisons, Finnish companies and organisations are frontrunners in this type of activity. Even though this can generally be regarded as a good matter and shows that employees and their skills are valued, it can also reflect an uncritical faith in the activity.

A total of 49 % of employees in Finland reported that they had participated in training paid by their employers in 2006. The average annual training period was 5.4 days per employee. This is a significant reduction on the peak year of 2004, when external training averaged 13.5 days per employee. Training periods have in general become shorter, except in industry (Työministeriö 2006.)

Training meets a broad variety of development needs in organisations, which are high both in volume and in diversity. The focus of training varies from the development of specific skills toward the learning of broader principles. Training can vary for instance from technical

training to marketing techniques. A key decision is how much training should be organised on an internal basis. Factors favouring the in-house approach are generally lower costs, better tailoring to the organisation's needs, and greater control of the process and its contents. Nevertheless, there are also benefits in using outside vendors. If an organisation has a large training unit, it may be difficult and slow to reduce overhead costs if the volume of training diminishes. Outside vendors often have concentrated on specific areas and therefore can offer high quality. Often human resource development functions are lean and forced to use some mix of internal and external training programs in order to meet dynamic company needs.

Training is very similar to education, although there are some differences in emphasis. Education programmes if they are not a part of the state funded Finnish education system, are often quite comprehensive and expensive, and fewer people in organisation are involved. Often they involve the higher levels of an organisation. Typical examples are leadership education programs and MBA programmes, which among other things collect a group of managers or professionals from different companies to share their experiences and knowledge. Many big companies organise also long internal education programs, for example for junior managers. Their advantage is that they offer an outstanding platform for communicating an organisation's vision and strategies.

The determination of training needs can be based on two distinct ways of thinking. The first is the arithmetic approach, in which one computes the difference between desired and current competencies. The second is the growth trajectory approach, in which focus is on developing those competencies that are already developed.

Training needs can be further identified using two different methods:

1. task analysis identifies what is required in a given job, including any special competencies required, and
2. performance analysis reveals the existence of possible difficulties, and also indicates whether the difficulties should be solved through training or other means.

Training is often well planned and systematic. A training plan model can incorporate 5 phases (Sork & Buskey 1986): 1) mapping of needs, 2) setting of objectives, 3) choice of learning experiences, 4) their systematic implementation and, 5) comparison of objectives and results.

Training can be **organised** both internally and externally, with each having its own distinct advantages. Training that is fully implemented in-

house offers a better opportunity to unify development activities with the organisation's strategic objectives. Internal development activities enable the establishment of a systematic and integrated approach to personnel development.

External training, on the other hand, allows the organisation to find new perspectives with regard to its competencies development and also offers an opportunity to make use of external experts. External training is often greatly beneficial in that employees can share their opinions with peers outside of the organisation. This broadens perspectives both within one's own area of expertise and elsewhere.

Training can be organised in various ways:

- An external training specialist plans and implements the training, which means it might poorly meet the organisation's needs. Programmes are often not tailored enough, or are tailored in the wrong way. The benefit, however, is fresh visions, new expertise, impartiality and efficiency.
- Training is provided by the organisation's own training department, which can lead to red tape and sticking to established practices. The benefit is knowledge of the organisation's needs.
- Training is provided on-the-job, which means that the training can be provided by competent employees, superiors, customers or communications officers. The benefit is that training is targeted to meet the right needs and that trainers can also develop their competencies. This kind of training might be limited to everyday experiences, however.

Training will be more beneficial to the learning experience if the participant list is extended from trainers and trainees to customers, subcontractors, suppliers, employees in other functions and other stakeholders. In addition to increasing the uniformity of factual information, this can also provide a deeper understanding of the operations of the players involved. As a result, the amount of knowledge available can increase, and new perspectives can be opened up.

Self-managed learning includes independent study (books, articles, video tapes, mentoring, and consultation with knowledgeable and skilled individuals) and programmed instruction (self-paced learning using such devices such as interactive video systems) (Abbot and Dahmus 1992). The advantages of self-managed learning include the matching of learning content to individual needs, flexibility in the timing and availability of learning resources, and also responsiveness to changing needs for infor-

mation and skills. Guglielmino (1977) developed self-directed readiness scale (SDLRS) and studies made with it show that there is a positive correlation between the SDLRS scores and the level of education in jobs which require high degrees of creativity and problem-solving ability (Guglielmino, Guglielmino and Long 1987; Roberts 1986), as well as between the SDLRS scores and the organisational level (Abbot and Dahmus 1992).

In companies that renew their product selection at a rapid pace, it is often necessary to organise learning through self-managed programmes. Finnish banks are a good example of this, as their intranets also function as learning forums. The intranets contain the latest information about products and services, and staff are also obligated to keep abreast of these developments.

Some organisations use *assessment centres* for developing skills and just not for measuring for selection and promotion. Such centres can enhance self-awareness, help to identify training needs, and facilitate subsequent development of skills. The methods may include interviews, aptitude tests, personality tests, situational tests, a short autobiographical essay, a speaking exercise, and a writing exercise. Goodge (1995) has claimed that assessment centres usually contribute very little to actual development planning, but place priority on researching competencies, assessing present skills, or simply running the courses.

The use of Internet-based on-line applications, i.e. *e-learning*, is becoming increasingly popular in personnel development. On-line applications can also be combined with other learning methods. Conger and Xin (2000), for example, have proposed that on-line applications could play a significant role in action learning processes. The technology allows participants to contact each other and share information through means including discussion forums, open databases, distance learning solutions, e-mail mentoring as well as different kinds of simulations. The technology can also be used in management training. E-learning cannot, however, replace the inherent benefits of getting together in person, for example the deepening of personal relationships and the sharing of joint learning experiences (Hernez-Broome et al. 2004).

4.6.2 Group based development activities

Organisational learning to a great extent takes place via interactive processes, which is generally on what human learning is built. This phenomenon has been extensively studied for example in sociology (Bandura 1977) and learning psychology (Mezirow 1996). According to the socio-constructivist

notion of learning, people learn in interaction with others, by doing with others, by solving problems with others, and by participating in practices that have become established over time. In other words, this means that people learn from their experiences and from others when they process and share their experiences.

Participants in such interaction processes not only gain access to shared knowledge but also learn to interpret this knowledge, and thus gain a greater understanding (Miettinen 1995). This also builds so-called **organisation memory** (Olivera 2000), which refers to the organisation's accumulated experience-based knowledge and understanding. The kind of shared understanding and interpretation that is created and how information is shared within the organisation have an impact on all future learning in the organisation.

In developing group competencies, **common meaning structures** are a very important element. They are an essential part of the core competencies. Common "meaning structures" or "mental models" are inner pictures of how the world is functioning. Most of the common meaning structures are not visible, but they have a profound effect on how the organisation works. A simple example of a meaning structure is "it is important that I do my own special job well". Common meaning structures are understood as the truth, so it is very difficult to change them. They can therefore also start to work against an organisation's aims when environment causes a need to change (the meaning structures have turned into core rigidities). Desired common meaning structures can be reinforced through well organised orientation and training. (Kirjavainen&Laakso-Manninen 2000.)

Andrews and Delahaye (2000) analysed the transfer of information among people in organisations. Their research showed that a "psycho-social filter" played a key role in determining how information was exchanged among people. The filter's elements are one's self-confidence, which is impacted by notions of the self and others, as well as the trustworthiness and reliability of the counterparty.

Western thinking often presupposes that information is the property of the individual. Cook and Brown (1999) have criticised this notion, and propose that tacit and explicit knowledge can be owned by also by groups or organisations. Brown and Duguid (2001) studied the **information flow** of organisations, and noted it contains "sticky" and "leaky" segments within and across organisations. Leakiness or the flow of explicit and tacit knowledge is characteristic of external relationships. Contrary to what one might assume, information usually flows more easily among people working in different organisations, than within the organisation

itself. Stickiness, on the other hand, is manifest in the difficulty to transfer explicit and tacit knowledge among people in different functions within an organisation. Within organisations, a person's information search and its communal processing are separate processes. But it is only when they are joined that one can form a solid foundation for the development of professional competencies. This challenges workplace communities to secure the free availability of information and also to organise cooperation for the processing of this information.

Whether it is on the individual or group level, learning happens **through language**, and in part also targets language (Leontjev 1979). All thinking involves concepts and is language based. For this reason it is not irrelevant what concepts organisations choose to use when they want to promote understanding of some topic. Concepts should be understandable and easy to remember. They should also evoke the same interpretation as much as possible. Indeed, it is usually the case that one must first learn the terminology on a topic before it can be properly discussed and before relevant actions can be agreed upon.

On the group level, learning effectiveness is also very much dependent on the type of **reflection** that the learning process generates. At their best, learning groups are able to evaluate objectives, strategies and processes, and also improve upon them. Such groups can also learn to understand and develop reflective learning. Group reflection that has advanced is also able to identify and distinguish so-called "official" theories and thought processes from actual practices that define and guide operations. The achievement of reflexivity is not easy, however. One reason is that people also act on the basis of emotions. We tend to avoid the bad feelings that can result from discovering our failures, and we also tend to explain things in a light more favourable to ourselves. This makes the achievement of a high level of group reflectivity difficult because learning situations that involve reflection are often problem situations that tend to promote negative emotions. For this reason, an organisation often needs to explicitly calm down its emotional charge. This will allow reflection to be rational, critical and analytic, while remaining genuinely inquisitive and personal. Often this requires some form of support from the organisation, for example the use of group work methods, process tools or an external mentor.

All situations involving problem-solving are potential learning activities. **Problem solving situations** can take place at all levels and functions of organisations, but the extreme examples are research and development activities. Most often problem solving is practiced in collaboration with others simply because the problems people get confronted with at work

are multi-faceted and complex. In order to be solved, they demand a wide variety of knowledge, expertise and competence, which can only be reached by a group of people. Problem solving situations not only demand, but also develop meta-cognitive skills such as planning, monitoring, and checking (Stenberg 1981). On the group level, problem solving situations demand and augment such meta-cognitive skills as collective awareness and collective control (Smith 1994), which refer to the ability to perform tasks together, share knowledge and create common mental models.

Most work today is done in groups and teams. Such groups are defined as **communities of practice**, where there is a set of relations among people, activities, and the world over time, in relation with other tangential and overlapping communities of practice. The term community does not necessarily imply co-presence, a well-defined group or socially visible boundaries, but does imply participation in an activity system on which the participants share an understanding (Lave & Wenger 1991). Groups can be used also as platforms for learning, especially when knowledge transfer and joint learning are included in goals and directed more consciously. A **team** is a more tight-knit group with supplementary skills, mutual accountability, and a common goal (Katzenbach & Smith 1997). Teams are very efficient learning platforms, for example in situations where a person creating a new competence works in a team with highly experienced people. Often the context and task for a team is some kind of **project**, which has a specified starting point, concrete goals and a defined end. In many companies, long-term competence development plans for young professionals include project tasks in order to create and strengthen competencies in view of future career paths.

Pilot projects are usually efficient platforms for common learning as well. Sometimes organisational development programs start with restricted pilots in order to show if the development plan functions and generates the targeted result. Pilot projects especially involve thorough evaluation and problem solving and thus are efficient situations for learning for both the groups and individuals involved.

Meetings can be efficient and practical forums for learning at the work place. They are relatively easy to organise and usually inexpensive in comparison with training. As a tool for group learning, they are still often overlooked in companies. There are different kinds of meetings, e.g. staff meetings, planning meetings, problem solving meetings etc. They are organised usually in order to make decisions, share information or solve problems. When common learning is taken more consciously as one of the goals for a meeting, it produces more effective knowledge sharing, evaluation and dialogue.

Dialogue has repeatedly been identified as an important prerequisite for organisational learning. Dialogue refers to experiential interaction with others (Rauhala 1989). It is the open sharing of assumptions, opinions and information, and also active listening and trying to understand the viewpoints of others, as well as testing and questioning one's own viewpoints in interaction situations. It is an open and creative process in which matters are investigated together.

Everyone has a different history and outlook on the world; we all look at the world through the prism of our own subjectivity. By being open and sensitive to others, we are able to see actions and the grounds for them from other people's points-of-view. And though people have different experiences and world views, we must bear in mind that nobody knows everything about everything. To have experience and knowledge only means the ability to learn even more.

Dialogue has been said to have the objective of establishing a shared understanding or the building heuristic models that promote the establishment of a shared understanding. This notion has also been criticised and it has been proposed that dialogue does not necessarily lead to a shared understanding, but rather offers an arena for the plurality of voices. Oswick, Anthony, Keenoy, Mangham and Grant (2000) studied the development of dialogue within groups of five members. The end result was not a joint understanding, but rather a deeper, richer and more multi-faceted array of viewpoints on the topics under discussion. The participants did become more aware of each others thoughts and deepened their understanding of the topics, even though a joint understanding did not arise. Sarja (2000) came to the same results in a lengthy study in Finland. The study discovered that, even when group members do not try to reconcile their opinions or achieve a joint understanding, reflexive dialogue can be of benefit to all parties. When performing individual tasks after the dialogues, the participants made use of the ideas presented during the dialogues in a combination of own and others' opinions.

The key to dialogue is the ability to listen, but not all listening is necessarily productive. Listening must be active in that the listener genuinely tries to understand the speaker's message and be aware of the speaker's emotions, and also wants the speaker to express himself or herself (Rogers & Farson 1979). Listening that promotes learning focuses on three things: content, emotions and motivation (Bowerman & Collins 1999).

■ Case

Holiday Inn Helsinki City relies on active workplace familiarisation, staff training and personnel development to ensure the quality of its operations

Holiday Inn Helsinki City Centre is a part of InterContinental Hotels Group, the world's largest hotel company. The Group's most recognised brands are Holiday Inn, Holiday Inn Express, Crowne Plaza and Intercontinental. The Group has over 3,200 hotels in about 100 countries. Holiday Inn Helsinki City Centre meets the competition with quality. It consists of two factors: the product and customer service. The role of the latter is understood to be more important, which highlights the importance of personnel. Quality is understood as the key factor that differentiates the hotel from the competition. Price is not an important factor in the Helsinki centre area.

Holiday Inn Helsinki City Centre is a subsidiary of Finland's Restel hotel chain, and the hotel's operations have been tailored to meet "Restel's ways of working". This means, for example, that the hotel's managers follow Restel's strategies. The vision and strategic points of emphases are reviewed annually, resulting in corrective measures or changes in operating practices. Restel's core competencies and core personnel are determined on a conceptual basis, i.e. according to the brands and operating plans of the different hotels in the chain.

The operating plans, which are segmented into responsibility areas, tell what is expected from personnel in order to ensure the expected quality levels. Core competencies are ensured in part by a distinct effort to recruit graduates from highly-ranked educational institutes in the field. This applies also to temporary employees.

Holiday Inn Helsinki City Centre's "management focuses on the implementation of the operating models", which is also the chain's publicly announced value. The operating models, which are referred to as 'concepts' within the chain, play a key role in ensuring uniform quality that is in accordance with the chain's business idea and values. Adhering to the operating models means, for example, that one of the key tasks of each hotel manager is to familiarise his or her subordinates with the chain's operating models, to ensure that adherence to them is continuous, and also to give feedback as required. The familiarisation process is supported by a clear presentation of the chain's mission, vision, business idea and values. Discussing these issues just once is not enough. They are reviewed at regular intervals.

Restel's **familiarisation** process can be divided into the following:

- Practical skills, i.e. issues relating to information technology, reservation and telephone systems, and regular customer programmes
- Customer skills, i.e. understanding the needs of the hotel's customers, as well as customer knowledge and customer relations management
- Operating practices and management competencies, i.e. familiarisation with key points in Restel's and the hotel's concept: including business idea and operating models.
- The topics addressed during familiarisation are shown in more detail in the figure below.

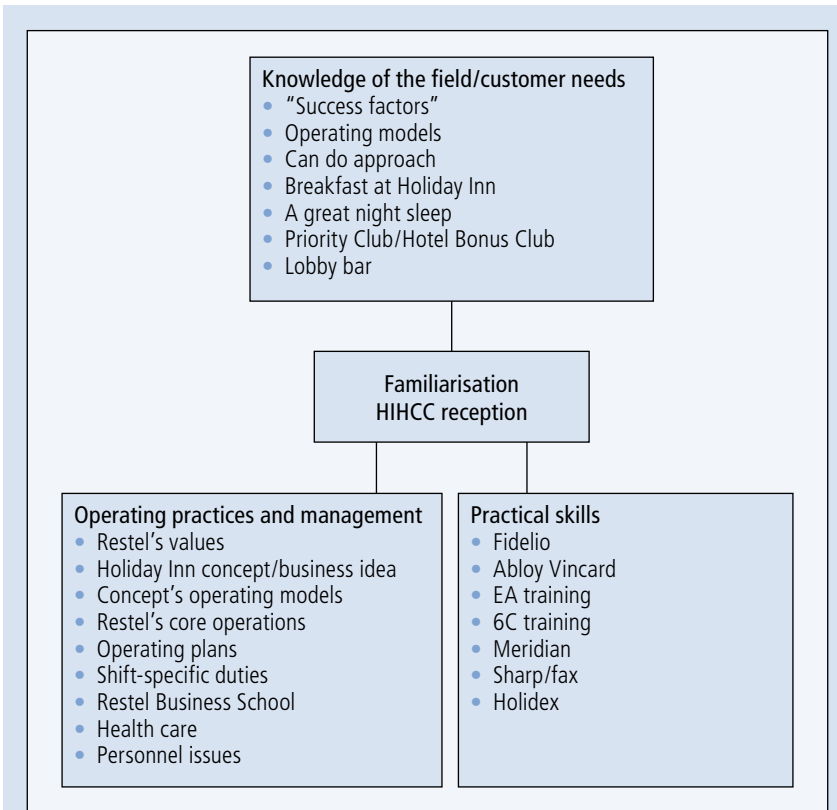


Figure 15: Holiday Inn Helsinki City Centre's familiarisation topics.

A manager has described the hotel's familiarisation objectives as follows: "Successful familiarisation means that customer satisfaction is ensured and improves. Successful familiarisation has an all-round impact: it leads to less conflicts, improved job satisfaction, and service without technical mistakes."

Familiarisation is supported by active personnel development. Restel does not engage in competence mapping as such, but the chain's units complete development discussions (known internally as feedback discussions) in line with guidelines provided. The feedback discussions are based on personal operating plans. At the start of the year each employee completes a personal operating plan, which is to be based on Holiday Inn Helsinki City Centre's operating models (operations that support the business idea).

Restel provides all its personnel with opportunities for career advancement. This usually begins with a recommendation from an employee's superior. All employees can also apply for training at the Restel Business School, which offers diplomas on shift management and operations management, and also Restel Chef training. Management trainees are chosen on the basis of interviews and discussions with managers. Unit management groups meet regularly to review personnel issues and personnel development.

Restel makes use of both external trainers and its own experts, who always lecture on their own areas of expertise. Employees in training are also coached by their own superiors during the training process. The task of the supervisor is to provide help and support during the training period, and also to ensure that this is visible in actual work. Restel provides all its personnel with opportunities for career advancement.

(Tuomisto, M. 2004)

4.7 Evaluation of human resource development activities

One of the key purposes of human resource development is to promote competencies that have an impact on the achievement of strategic objectives, and especially on core competencies development. An equally important objective is to improve the competencies of all members in the organisation, and as a result to be better prepared to meet current and future challenges. However, it is not easy to be sure whether any given development action leads to the desired outcome or not. Despite decades of effort, no uniform or commonly accepted method for **impact evaluation** has been developed. The impacts of development actions are still primarily evaluated by means of indicators that are positivistic in nature. Typically, impact evaluation focuses on the impact of training. Many impact evaluation studies have noted, however, that it is difficult to separate the impact of training from other factors, for example the influence of changes in the operating environment. Training impact evaluation is often limited in scope to cover only one or two areas relevant to the person and his or her job, while excluding all the others (Kantanen 1996).

The table below presents impact levels that training can have, as presented by various researchers. Most of the studies are based on the model of **Kirkpatrick** (1969), even though the points of emphasis vary.

	Kirkpatrick 1969	Hamblin 1974	Laird 1983	Boothe 1985
Level 1	Reactions	Reactions	Reaction	Training operations
Level 2	Learning	Learning	Learning	Learner/employee
Level 3	Behaviour	Behaviour	Operations	Organisational goals
Level 4	Results	Organisation	Cost-efficiency of training	Overall business objectives
Level 5		Ultimate benefit		

Table 5. Comparison of training impact models (Kantanen 1996).

Unlike the other researchers, **Hamblin** has added a fifth level to the gradient, which evaluates the ultimate benefit. In Hamblin's model it is however most difficult to determine the extent to which training has had an impact on the achievement of ultimate benefits, i.e. the ultimate objectives, which refer to the overall objectives of the organisation. The behavioural changes that result from training and also their impact on results are difficult to measure. Hamblin's proposals have been criticised (Ruohotie 1993). Contrary to what Hamblin assumes, training does not necessarily require that participants react favourably to the training.

Sometimes conflicts that result from training can function as a point of departure for learning.

The impact on behaviour of things learned during training can be measured from two points of view. These are visible factors such as behaviour and skills, and non-visible factors such as thinking habits and values. When assessing the impact of learned behaviour models and skills on performance, one needs to verify whether the things learned have been applied in practice, and whether the operating environment is such that it supports the application of the things learned.

Evaluating the transfer impact of training allows one to verify whether the persons trained actually make use of the things learned during training. Learning new skills does not mean that they will be used. This level of the model allows one to determine the crucial question in relation to the training's cost-efficiency: do the trainees apply what was learned in practice. The second stage of the evaluation of transfer impact measures factors that cannot be seen or heard. The participants in the training might, for example, make use of thought processes that are impossible to observe because they are in the mind. It may be difficult to observe commitment to an organisation's vision and plans, but it can nevertheless be measured (Robinson et al. 1989).

Brinkenhof (1987) developed a six-stage cyclical evaluation model, which can be applied to the evaluation of a variety of development actions. The model systematically tackles all stages of the development process: competence mapping and setting of objectives, the development project's planning process and planning, the implementation of the plan, achieved results, practical impact over the long term, as well as overall impact.

The first evaluation stage focuses on the process in which the development needs were defined: the scope and depth of data collection, the scope of participation, as well as data collection methods. An extreme example is a company whose development project derives solely from a development idea that the managing director picked up from a seminar.

The second stage reviews the planning process and the resulting plan. The key questions at this point are: who participated in the planning, on what principles was the plan formulated, what factors did the plan take into account, what is the plan's structure, what steering mechanisms does it incorporate, what information was acquired in support of the plan, how relevant is the plan in relation to the company's current state etc.

The third stage is implementation evaluation: what transpired? Was this as planned, how active was participation, did the implementation proceed according to schedule etc. The fourth stage is closely related to the third: what was accomplished? Results evaluation focuses on mat-

ters that can be measured immediately after or during the project. This involves, for example, changes in the attitudes or skills of participants, or the quantity and quality of project products. The fifth stage focuses on the longer term. It monitors operating developments relating to the project's objectives after the project has been completed, and also aims to identify factors that will support application in practice.

The final stage involves the evaluation of the entire project's benefit to the organisation. It compares resources used with benefits gained, assesses the extent to which results were achieved, and also reviews the need for further measures.

5

The link between knowledge management, competence management and human resource development

■ In a Finnish setting, ‘knowledge management’ is generally understood as both ‘competence management’ and ‘knowledge management’. Knowledge management has also been defined as having two main dimensions: firstly, the efficient management of knowledge, and secondly, the processes relating to the growth, spreading and internalisation of knowledge. With regard to the first dimension, an organisation that engages in knowledge management develops its knowledge acquisition systems, its information systems, the operating models through which information and knowledge is processed and spread through the organisation, as well as solutions for the storage of information and knowledge. And with regard to the second dimension, knowledge management is closely linked to personal learning, as people are encouraged to develop individually and in teams and to share their knowledge. In this latter sense, knowledge management is closely synonymous with competence management. Nevertheless, knowledge management is generally understood to refer to the system a company uses to acquire, process, store and distribute knowledge and information.

5.1 Knowledge and knowledge mapping

Blackler (1995) has **classified knowledge** into five types: embrained, embodied, encultured, embedded and encoded.

Knowledge type	Essence and contents
Embrained knowledge	<ul style="list-style-type: none"> • What knowledge • Internalised facts and operating principles
Embodied knowledge	<ul style="list-style-type: none"> • Skills • Tacit knowledge
Encultured knowledge	<ul style="list-style-type: none"> • Common knowledge acquired over time • Narratives, comparisons and stories
Embedded knowledge	<ul style="list-style-type: none"> • Tools, technologies, material resources • Organisational structure and routines
Encoded knowledge	<ul style="list-style-type: none"> • Symbolic knowledge, documented knowledge, e.g. manuals and operating principles

Table 6. Knowledge types (Blackler 1995).

Embedded and encoded knowledge are objective in nature because they exist outside and irrespective of the individual. For example, this is the kind of knowledge new employees adapt to and internalise when joining the organisation. This type of knowledge is not taken along upon departure, however. Embrained, embodied and encultured knowledge is subjective in nature. They reside inside the individual. Embodied knowledge, for example, refers to one's intuitive understanding or awareness of a matter, even if it cannot be expressed in words. The skills of surgeons, hairdressers or masseuses are to a great extent based on embodied knowledge.

Poikela (2001) has divided **professionally important knowledge** into three types: theoretical knowledge, practical knowledge and experiential knowledge. Their relationships are illustrated in a triangle incorporating objective knowledge (outside the individual), subjective knowledge (internal to the individual) and experiential knowledge. **Theoretical knowledge** is knowledge in conceptual or symbolic form that becomes meaningful to the individual only when he or she processes it. **Practical knowledge** is present in concrete things: a gourmet meal prepared by a cook, for example. Practical knowledge also requires processing. **Experiential knowledge** results from thinking and doing. It can originate only in the doer. Theoretical knowledge can reside in experts, in information networks or books, while practical knowledge resides in situations, objects and the environment. Of the above, it is only experiential knowledge that individuals can internalise and take along with them, which is why it has the greatest value.

Polanyi (1983) was among the first to give emphasis to the notion of **tacit knowledge**. This is knowledge that has a continual impact on the individual, even though it has not been expressed or given shape. It is a second species of knowledge, with the first being explicit knowledge. Explicit knowledge refers to written words, mathematical functions, maps, images and all knowledge that is public, visible, transferable and open to evaluation. Explicit knowledge also refers to encoded knowledge and focused knowledge (Koivunen 2000). In Polanyi's formulation, tacit knowledge shows people if explicit knowledge is true. Without tacit knowledge, explicit knowledge has no foundation.

Tacit knowledge embodies all of the genetic, corporal, intuitive, mythical, archetypal and experiential knowledge that people have and that cannot be verbally expressed. The fact that it is tacit also implies that it is not easily noticed in companies, and that the owners of tacit knowledge do not necessarily recognise it themselves. Making tacit knowledge visible presupposes many things. Firstly, someone must become aware of it. Given their status in the organisation, superiors are a good candidate. Secondly, the owners of tacit knowledge must recognise that they have it and be prepared to share it with others, which, moreover, requires a social environment and situation that is felt to be secure. And finally, the owners of tacit knowledge should have the ability to communicate it to others.

A person's tacit knowledge not only has a personal element, but also has a collective component that is transferred to others by copying, identification and doing. This is why tradition plays an important role. Handicraft, for example, involves a lot of knowledge that can be transferred from the expert to the novice only by observing and doing. Tacit knowledge can also relate to group work, in which case the group is able to achieve something that an inexperienced group or its members alone cannot (Koivunen 2000).

Nonaka (1994) introduced the concept of tacit knowledge in competence management. The reason was very practical: He and his colleagues noticed that creative solutions, innovations and quality operations in companies are often built on something that is partly hidden. Tacit knowledge played an important role in strong performance, but it was difficult to identify. As a result, Nonaka proposed that companies should actively strive to identify tacit knowledge and to make it visible and easier to utilise. The underlying desire was therefore to make better use of tacit knowledge within the organisation.

In order to validate knowledge and pass them through to employees, it is important to present knowledge in a comprehensive and transparent form. A graphical format has proven to be very useful for this purpose,

with the result that there has been an increase in the use of graphical knowledge models, also called knowledge maps.

Knowledge mapping is different from personal competence mapping. It can be defined as the techniques and tools for visualising knowledge and relationships in a clear form so that business-relevant features are clearly highlighted (Vail III 1999). Knowledge maps are created by transferring certain aspects of tacit or explicit knowledge into a graphical format that is easily understandable by end-users, who may be business managers, experts or technical system developers. Knowledge maps are tools for an organisation to manage the complexity of knowledge.

Knowledge maps can be used to highlight and classify useful indicators such as strengths, weaknesses, opportunities and threats, and in this way facilitate business planning (Vail III 1999). Knowledge maps can also be used to search for knowledge.

Knowledge mapping deals with how to best capture, secure, distribute, coordinate, retrieve, store, and manage knowledge assets so that the organisation can best leverage its knowledge internally and externally. The maps can be used to bridge business and IT systems, for example, while providing a frame for collecting and storing information in the organisation's database. In this way knowledge can more easily be transferred to the entire organisation (Vail III 1999):

1. Capture: Collect relevant knowledge that is continuously evolving in all of its forms: text, pictures, stories, data, and models.
2. Organise: Since knowledge maps are based on architecture and symbols, they automatically organise an organisation's knowledge and serve as visual directories to other more detailed sources of knowledge.
3. Share: Knowledge becomes accessible to everyone at every level of the organisation in the most appropriate form, computer literate or not.
4. Evolve: Knowledge maps are durable; they do not have to be recreated from scratch, but continually evolve with new knowledge relationships.

Knowledge mapping is an important tool consisting of survey, audit, and synthesis. It tracks the acquisition and loss of information and knowledge. It explores personal and group competencies and professional capabilities. It visualises and maps how knowledge flows throughout an organisation. Knowledge mapping helps an organisation to appreciate how the loss of employees has an impact on intellectual capital, it provides assistance in

the selection of teams, and it matches technology with knowledge needs and processes. (Liebowitz 2000; Vail III 1999.)

An important aspect of knowledge mapping is **knowledge transfer** (Holden 2000). It allows people who are willing to share their knowledge to distribute it to everyone's use. Problems in knowledge transfer can, however, cause impassable difficulties in building an effective knowledge map. Davenport and Prusak (1998) list such problems as follows:

- lack of trust
- different language and culture
- lack of time and meeting places
- rewards and honours go to knowledge owners not providers
- prevailing intolerance towards mistakes and asking help.

The KPMG (1999) Knowledge Management Report 2000 arrived at similar results. The report studied organisational attitudes towards knowledge management, including knowledge maps, and found that most organisations had the following problems:

- the lack of time to share knowledge (62%)
- failure to use knowledge effectively (57%)
- difficulty in capturing tacit knowledge (50%).

With regard to service organisations, Hauschild et al. (2001) contribute the results of a McKinsey survey of 40 companies, and mention that "personal meetings seem to be the best way of sharing tacit knowledge, 93 percent of the successful companies locate development teams in the same facilities used by groups with which they work closely, such as supplier teams".

5.2 Knowledge management strategies

Competence management and human resource development are affected not only by a company's current position and objectives, but also by its **knowledge management strategy**. There are two main ways that such a strategy can be created: via a codification strategy or via a personalisation strategy. The two represent the opposite ends of a continuum, and emphasis on one is often seen to be a more suitable or natural choice for a firm than the other. Nevertheless, both are always present in some way in a company's knowledge management strategy.

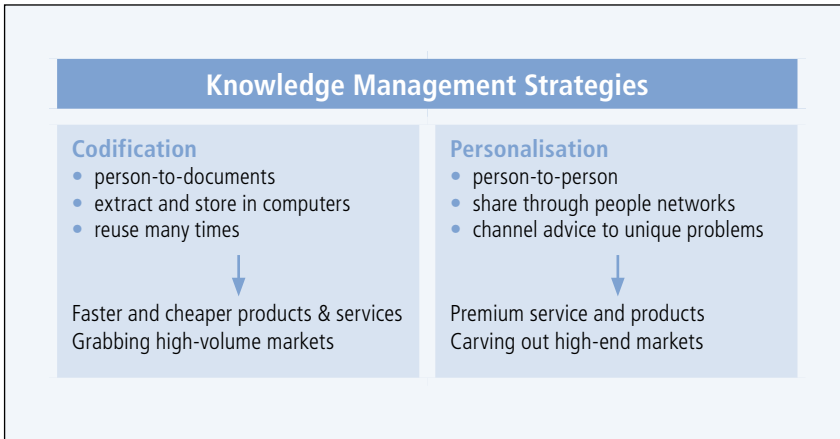


Figure 16. Knowledge management strategies (Hansen 2000).

If a company has chosen a codification strategy based on information systems, human resource development should likewise focus on information systems. Personnel development should then ensure that everyone has a good command of the company's information technology and systems. Unfortunately, one often encounters a surprising lack of skills in this area, as well as a lack of courage to bring this into the open. Once the technical issues are in order, however, one should ask how well these systems are used and whether new information is being continuously entered into the system. Not surprisingly, the challenge is to motivate personnel to make active use of the information systems and also to update them on a regular basis.

If a company's knowledge strategy is based on personal dialogue and the spread of information from person to person, it is called a personalisation strategy. The challenges of human resource development are then different. In such a case, the systematic organisation of communications among personnel is crucial. Dialogue cannot be random and based on chance but must be systematically organised in such a way that there are no breaks in the flow of communication. In this strategy, human resource development must place special emphasis on actions from job initiation to the promotion of dialogue during everyday tasks. This requires, for example, systematic mentoring and regular meetings for information exchange.

For the knowledge base to be useful in human resource development, top management must first define its goals with respect to knowledge base management, create strategies with respect to these, as well as know how to approach the implementation of the goals in practice.

Once it has set knowledge base management goals, top management must determine how it will approach the process in practice. There are two distinct alternatives on offer: the codification strategy and the personification strategy (Hansen, Nohria & Tierney 1999).

A codification strategy focuses on information systems. The strategy is based on the premise that information consists of facts that are saved in information systems, and that the information society is rooted in information technology and innovative operating practices. It sees information systems as the solution to the management of knowledge. It considers information to be a resource that must be grasped, analysed, codified and used for the purpose of achieving competitive advantage, and that this is best achieved through the systematic use of information technology and systems. The key challenge is the removal of bottlenecks in the collection and distribution of information. Because the value of human resources grows with their use, it is of paramount importance to establish systems that distribute information as broadly and as fast as possible, in order that this information will be spread throughout the entire organisation. This is most efficiently achieved through information systems.

Of key concern here are system costs and usability. Though it is easy to set up an information network, it is difficult to reduce the wealth of information contained in such a network into meaningful information clusters. The information system strategy is best suited to mechanistic environments: it will be fruitful especially in environments that are easy to predict and control.

A personification strategy, on the other hand, is rooted in the behaviourist school of thought and considers information management as a process in which skills and expertise are in continuous transformation. According to this approach, one must first strive to understand human behaviour and only thereafter fully win the hearts of key personnel.

When choosing the personification strategy, top management targets people instead of information systems. It is people and the information they have, even if not structured, that is the key resource. People in the organisation are not only considered to have information but also to process and produce it. Organisational success, in the final analysis, comes down to the actions of the people within it and how they put their knowledge to joint use. It is to the benefit of the organisation that its members know how to share their knowledge and expertise and also have the desire to do so. The personification strategy stresses the importance of tacit knowledge, acknowledges the difficulties inherent in making it explicit, and looks for ways to transfer this knowledge between people through interaction.

If a company decides to focus on knowledge base management and chooses the personification strategy, then the key challenges for personnel development are the creation, encouragement and reinforcement of cooperation, all geared toward the creation and transfer of information within the organisation. The personification strategy requires that the organisation also simultaneously strive to foster a sense of spirit within the organisation. Trust and cooperation play an important role in this regard. The corporate culture must motivate and reward information exchange.

All of the tacit knowledge residing in a company cannot be defined or presented in a visible form. A large part of tacit knowledge is visible, but has not been defined. With regard to the nature and definition of knowledge, Zack (1999) proposes that a company can face four different situations: In the first case, the non-definition of definable knowledge leads to lost opportunities in the efficient sharing and utilisation of knowledge and as a result to create something new. If a competitor is acute enough to better utilise the knowledge in question, it gains competitive advantage. In the second case, a company might try to define and make visible tacit knowledge that due to its nature it cannot. This leads to a waste of resources and possibly even a loss in the value of the tacit knowledge. In the third case, the company has become aware of the nature of its tacit knowledge, and does not try to define or force it into a visible form. In the fourth case, a company has been able to identify valuable tacit knowledge that can be defined and is also visible. This allows it to be distributed and made use of in development activities.

Meyer and Zack (1996) have described a process in which a company's knowledge is refined from "raw information" to information that can be applied and utilised. The process begins with the acquisition of information from various sources, which is then filtered, refined and organised into information storages, for example databases. The information is then shared and presented to its users. The processes of information gathering, handling and storage together make up an information platform, which as such has not been of benefit to anybody, but can nevertheless be accessed and used. At this point it is still information. It is only the utilisation of information, which covers distribution, presentation and use, that turns information into knowledge.

According to Zack (1999), knowledge management rests on four pillars:

- visible information sources
- information warehouses where information is collected, encapsulated and refined, and which manage the information distribution process
- information technology that supports information collection, refining, storage and distribution processes
- job profiles (roles) that manage the processes above.

Information technology is the most important tool in the codification of knowledge. It provides a conduit for the flow of information within a company. In particular, it is used to: 1) collect information, 2) define, store, classify, encode and combine digital information, 3) compile and forward information and 4) display information.

For a company to acquire and make use of the information needs, it often needs to establish a clear set of responsibilities for the tasks within the different stages of the information value chain. It is important to name people who will be responsible for and in charge of the acquisition and processing of different types of information. With information flows growing at a rapid rate, the risk that some vital information is overlooked is growing all the time. For this reason, it is often necessary to specifically define what information is to be collected and monitored in order to achieve corporate objectives.

With baby boomers approaching retirement, many companies have started to ponder how the skills and competencies of the soon to be retirees can be kept and transferred within the organisation. A company's core competencies have accumulated over the years. It is built on the individual and joint competencies of employees.

Indeed, the transfer of knowledge is a key challenge with respect to not only retirees but also other people leaving the organisation. Knowledge is not static, but can be altered, interpreted and learned in different ways, which is why knowledge management is a challenging process. Because knowledge is in a constant state of change and development, a company must be aware that what is relevant at one point in time, might well be redundant in the future. Indeed, a core challenge for companies is to identify what knowledge will be important to it in the future.

Experience usually builds competencies. An organisation might nevertheless undervalue the experience and professional skills of senior workers in relation to younger and more educated ones. The experience provided by older employees is important for the organisation's success. This expe-

rience can involve customer relationships, office routines, knowledge of practical matters, professional skills, organisational culture or cooperation networks. A senior employee's competencies are often invisible, and their importance is often recognised only after departure. Development actions that take the competencies of senior employees into account will in the end also be of benefit to younger employees.

In many organisations, issues relating to human resources, the value and the validity of knowledge or intellectual capital, as well as the utilisation of personnel competencies are being widely discussed but underused and often misunderstood. In conclusion to her research on collaborative problem solving, Rahikainen (2002) argues that problem solving processes are more dependent on the cognitive-level processes rather than on external frameworks. If people are not able to exploit the human, intellectual, and social capital they possess in the knowledge creation process, no technique or motivational trick will do any good. This fact can well be applied to any learning situation in a company.

6

The learning organisation as a foundation for competence management

■ An optimal state for creating and nurturing organisational competencies has been defined in terms of the **learning organisation**. A learning organisation is generally viewed as a process that takes shape over time, that is integrally linked with the acquisition of competencies, and that improves with performance. A learning organisation is an organisation that successfully creates, acquires and distributes knowledge, and adjusts its behaviour in light of new knowledge and insights (Garvin 1993). According to this definition, new ideas are a prerequisite for learning to occur. They are a point of departure for organisational change, but nevertheless cannot alone build a learning organisation. The key is to apply new information into the organisation's activities (Garvin 1993).

There are also many other theories and models that describe and define the learning organisation. According to them, the typical characteristics of a learning organisation are:

- an atmosphere that encourages continuous learning and development
- calling things into questions and doing repairing actions
- changing behaviour according to new information and views
- encouraging experimentation
- allowing mistakes and failures
- active regeneration in cooperation and through continuous work development
- active team work
- participative leadership and decentralised decision making
- staff ability to adapt to strategy changes.

Important foundations for a learning organisation are a clear business idea and vision. A learning organisation is one that has identified the competencies required for strategic success and also systematically manages

them. Competence management is a process in which ideas are put into practice, and which is supported by the right infrastructure. It covers all of the structures, operating models, principles and tools that support the generation, utilisation and development of competencies.

The infrastructure of competence management includes the following:

- an organisational structure and task organisation that support competence development
- a planning and monitoring system (competence quality and quantity)
- an efficient competence development system (familiarisation, personnel development, organisation development)
- other competence promoting human resource activities (recruitment, reward schemes, career planning, care for workplace well-being, workplace relationships)
- knowledge management and information systems.

A comprehensive system of human resource development and competence management includes many elements that allow an organisation to secure and develop its competencies even when people change. Such a comprehensive system usually develops as a result of the organisation's learning process. Often it initially incorporates only a few elements, such as development discussions, but with time it can grow into a comprehensive system in which different elements support each other. When this is achieved, it will also continually evolve to better serve the company's strategic objectives.

A company that has succeeded in creating a comprehensive human resource development and competence management system has incorporated the following processes into its routine management practices (Viitala 2005):

- the identification of key competencies in connection with the strategic process
- competence mapping
- evaluation processes
- development discussions at regular intervals
- formulation of competence development plans
- familiarisation processes
- human resource development policies in support of operations
- work practices, guidelines and rules that support learning
- a reward system that encourages competence development
- a competence risk management plan.

Human resource development plays important role in establishing and carrying out competence management. It does not just create systems and tools for implementing single activities, but also builds an organisational climate and consciousness that provides direction and content for the activity. An integrated system for competence management and human resource development comprises many stages and requires that the company engages in **continuous dialogue**. Learning, too, requires continuous dialogue on both the individual and corporate level.

Thus, it is important that human resource development includes **discussion forums** that address how to communicate and accumulate tacit knowledge across the entire organisation. Such forums will help to ensure that the core competencies are also communicated to units and individuals, and that the discussions focus on matters truly relevant to the competencies. Comprehensive discussions also bring to surface matters that are difficult and might hinder the strengthening of the core competencies, and therefore it is also important to identify matters that require early action.

Well-functioning corporate dialogue requires open discussion on all matters. For a more equitable dialogue between management and employees to arise, it is important that the latter familiarise themselves with the corporation's visions, strategies and objectives. At all stages people should be able to ask questions like "Why?", "What follows?" and "What for?", and also be given the opportunity to express their doubts and evaluate matters on the basis of their own experience.

Managers need to communicate the direction in which the utilisation and development of competencies should be heading. In practice this means, for example, the continuous translation of key strategic choices into everyday language. In this regard, managers need to set up forums and raise themes that will make the discussion of job objectives a natural and continuous component of everyday operations. One good way is to centre such communications around individual customers, as such an approach helps units to better see their operations in relation to the bigger picture. Expertise-based organisations, in which tasks are hidden and independent and yet involve all members of the organisations, must be careful not to lose track of their basic mission, i.e. the ability to tell the forest from the trees.

A good way to strengthen the links between a company's various human resource development operations is to establish arenas and practices that foster genuine dialogue about future competence needs among as many people as possible. This encourages people to make better use of their own judgement and hence improves their ability to act in an un-

certain and rapidly changing environment. One can be sure that people will find a way to build their competencies once they are aware of where the organisation is heading and why.

The integrated system for competence management and human resource development is based on the establishment of systematic operating practices and the compilation of individual components into one meaningful entity, but to succeed the system also needs strong individual input and continual dialogue.

■ Case

Helsinki Energy counteracts coming retirement of baby-boomers with active human resource planning and information exchange

Helsinki Energy produces, acquires, transmits and sells electricity and district heat, and provides related services. The company's vision is to be a leading Finnish energy company.

Helsinki Energy relies on the Balanced Scorecard. It is used on all levels of the organisation and is regularly updated. The company's goals are expressed in terms of the four areas of the scorecard. The last of these is the learning organisation, meaning that the company aims to have all personnel embrace continuous learning as a part of the organisational culture. Indeed, the company has made a conscious decision to have human resource development guided by the notion of the learning organisation. Sharing knowledge and creating something new are prerequisites for success in the company's rapidly evolving marketplace. Moreover, the transfer of competencies is an important current concern because many employees are facing retirement and up to one half of employees are expected to leave the company in the next few years. The company has prepared for this by placing emphasis on human resource planning, with the aim of taking timely action with regard to the soon-to-be reduction in senior employees.

Currently, the company seeks to ensure the transfer of competencies by having a departing employee and an arriving employee work together. This means that new employees are usually recruited slightly in advance, so that they can spend time with employees facing retirement, and, for example, learn how to deal with common problem situations. This familiarisation stage usually lasts from two months to half a year depending on the task. Doing together has been found to be the best method for the transfer of information and competencies. Some units have also introduced team work for this purpose, for example in power plants and in customer service.

The company aims to centralise information in processes and not people, with the result that more than one person commands a given competence area. Responsibility for this lies with department heads. Various guidelines and documents, in which information has been saved in written format, function as a means of knowledge exchange. New computerised information search tools have also been taken into use and information is classified in a clearer format, as a result of which information is easier to find and employees need not necessarily consult others.

Helsinki Energy has recognised the significance and value of the competencies of senior employees and has raised this as a topic of general discussion. This experience is utilised, for example, in that persons who are already familiar with given tasks are included in new projects involving them, and also in that more senior personnel are actively asked for advice during meetings.

Employee experiences with competencies that are difficult to transfer vary depending on the employee's tasks. Issues relating to workplace morale and professional ethics, for example, have been deemed to be difficult to share because people often feel these are complex and time consuming. It has been noticed, however, that tasks become easier once standard rules have been

learned. The company has also found it difficult to share information about whose competence area a given task belongs to, as well as information about internal and external contacts.

Experiential knowledge is difficult to save and transfer to others, but it is nevertheless best saved for future employees through interaction, i.e. when senior employees work together with more junior ones. This kind of knowledge cannot be specifically taught, but must be acquired. A functioning and open workplace environment is necessary for a smooth flow of information. It promotes dialogue and the courage to criticise and ask questions, leading to a joint understanding. The company feels, however, that there is still work to be done in this regard. It has also been proposed that the company's electronic information exchange possibilities be improved. Although information is available in traditional written documents, there is still room for improvement in the availability of information in electronic format.

(Lampinen, M. & Rautiainen, N. 2004)

7

Postscript

■ Finally, as Mabey and Iles (1993) have noted, a strategic approach to human resource development differs from a tactical one in that a consistent approach to assessment and development is identified, with a common language and competencies criteria attached to overall business objectives.

The human resource development function has to renew its role in organisations where competence has been identified as the true source of competitive advantage. Salaman and Mabey (1995) identified a number of stakeholders in strategic human resource development. First, *senior managers* can be seen as sponsors of development. They will be influenced by professional, personal and political agendas. Second, those who are responsible for planning and running the business are the *clients* of human resource development. They are concerned about customers, competitors and shareholders. An important third stakeholder group consists of *line managers*, who are responsible for performance, coaching and resources. Fourth, *participants* are those influenced by their career aspirations and other non-working parts of their lives. Fifth, human resource management professionals are *facilitators*. They are concerned with best practice, budget credibility and other human resource strategy. Lastly, human resource development specialists are identified as *providers*, who are influenced by external networks, professional expertise and educational perspectives.

Human resource development strategy should not be something owned by the human resource function alone. Rather, it should be the responsibility of the entire organisation, with the human resource development function acting as specialist, coordinator and partner. The function also plays an important role in translating chosen strategy into definite actions. The actions themselves will be carried out more and more by line management, assisted by the human resource development function or outside consultants.

When we expand our horizon from human resource development strategy and personnel development to competence management, even more emphasis should be placed on the entire organisation. Top manage-

ment should have an even greater interest on development because one is now truly dealing with core issues relating to business success. The ability to identify, refine and develop the core competencies is one of top management's biggest challenges.

List of tables

- Table 1. Key approaches to competence management (see Kirjavainen & Laakso-Manninen 2000).
- Table 2. The components of intangible capital (Lönqvist et al. 2003).
- Table 3. Business strategy impact on human resource management.
- Table 4. An example of competence levels.
- Table 5. Comparison of training impact models (Kantanen 1996).

List of figures

- Figure 1. An integrated system for competence management and human resource development.
- Figure 2. Example: Vision chart for an IT services company (Laakso-Manninen 2003).
- Figure 3. Relationships between core competencies and markets.
- Figure 4. Vision and strategy provide direction to human resource management (Viitala 2003).
- Figure 5. Connections between organisation strategy and human resource strategy (Torrington 2002).
- Figure 6. Human resource management task fields (Ulrich 1997).
- Figure 7. Sources of human capital.
- Figure 8. What is the Balanced Scorecard? (The Balanced Scorecard Institute, <http://www.balancedscorecard.org/>).
- Figure 9. City of Vantaa's personnel strategy.
- Figure 10. The competencies development process (modified from Hätönen 1999).
- Figure 11. Essential elements of HRD on the personal level.
- Figure 12. A framework of human resource development roles (Luoma 1999).
- Figure 13. Human resource development stages (Hätönen 1999).
- Figure 14. Examples of different management development methods (Viitala 2005).
- Figure 15. Holiday Inn Helsinki City Centre's familiarisation topics.
- Figure 16. Knowledge management strategies (Hansen 2000).

Appendix

List of the studies of the human resource management practices in the Finnish companies made by the student at Helia University of Business and Applied Sciences:

- Aspholm, Petra & Mäkikoski, Tuija 2004. Vantaan kaupungin päivähoito- ja varhaiskasvatusstrategian toteutus Hakunilan päivähoidon alueella sijaitsevassa päiväkodissa. Helsinki: Helsingin liikelouden ammattikorkeakoulu.
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