

Leadership, Intangibles & Talent Q1 2009

"We can't solve problems by using the same kind of thinking we used when we created them." Albert Einstein

Welcome to the second quarterly roundup of the latest thinking and developments around leadership, HR, innovation, talent management and organisational development. I have tried to pick out the most interesting or thought provoking of the high volume of articles, surveys, blogs and webcasts. In this issue, articles and examples have been included from the likes of Capital One, CFO.com, Cisco, McKinsey, Microsoft, Harvard Business School and Towers Perrin.

Summary for Q1 2009

Unsurprisingly, the financial crisis is still uppermost in people's minds and new ideas and insights are slowly emerging, interestingly not always from organisations which one would term the "HR establishment". Over and above this, other themes for this quarter include;

- Leadership development is going nowhere fast
- HR's relevance to an organisation's success
- HR acting more like a teenager, or not
- Command and control, enterprise 2.0 and amplified workers
- Successful recruitment via a self directing process
- A lack of creativity and death by data
- The big picture HR role
- Innovation, change and new ideas

As always any comments and feedback are welcome!

Leadership development is going nowhere fast

It has not been hard over the past few weeks to pick out the negative or critical of the HR function, especially when it comes to leadership development. The 2008/9 DDI Global Leadership Forecast¹, which surveyed over 13,000

HR professionals and business leaders throughout the world, found that "leadership development is going nowhere fast." This is compounded by further observations that include decreasing confidence in senior leaders who lack basic skills. The survey also finds that organisations are poor at leadership selection, have ineffective

talent identification programmes and poor succession planning.

A further alarming tendency highlighted in this survey is that HR and managers are locked in a spiralling circle of blame as each blame the other for failures in leadership development. Where development programmes do exist

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there is a lack of effective measurement of their impact.

This focus on quantifying the HR impact is a common theme these days, however the difficulty in linking or measuring the impact of strategy on performance is highlighted by Kim Warren², who hits the nail on the head by stating that this will not be possible until the influence of intangibles on performance is fully understood.

HR's relevance to an organisation's success

Things don't get a whole lot better for HR practitioners in an article on cfo.com³. In a talk given to a conference of financial executives by Professor Richard Beatty of Rutgers University, he lambasts the HR profession for failing to prove the value of employee engagement and also accuses it of not being able to systematically recruit and retain top performers.

"...he (Beatty) claimed that typical human resources activities have no relevance to an organization's success. "HR people try to perpetuate the idea that job satisfaction is critical," Beatty said. "But there is no evidence that engaging employees impacts financial returns."

In summary, Beatty argues that HR's focus on employee engagement is misplaced and instead of seeking to engage the workforce, more time should be spent on activities which show a tangible and measurable return on investment. In this instance, Beatty urges HR to focus on cultivating and retaining top performers through more effective selection.



Given his audience, Beatty's talk is likely to magnify the schism between HR and management in many organisations and the comment "the language of organizations is numbers, HR isn't very good at data analytics" is likely to resonate and frustrate in equal measure. In many ways, Beatty echoes Keith Hammond's controversial 2007 piece⁴, which undermines the notion of "strategic HR" and the impact of the traditional HR function;

"HR is the corporate function with the greatest potential - the key driver, in theory, of business performance - and also the one that most consistently underdelivers."

Unsurprisingly, these comments have not gone down well in the HR community. Notable respondents include Dennis Howlett⁵ and Kris Dunn⁶ who have both made considered responses to Prof. Beatty's comments. Both state that although not agreeing with many of Beatty's arguments, he does make a compelling case for a change in the focus or the way HR communicates with the business. Engagement is a much discussed topic and in the current climate is something many HR professionals are looking to prioritise. A recent survey⁷ by TalentDrain provides

some evidence for the shifting priorities of HR departments. It is hard to argue that enthusiastic and committed employees are any less productive than the idle or disengaged, the key however is to be able to quantify this effect.

The practical difficulties of identifying future leaders is discussed in an interesting piece from James Heskett⁸ who casts doubt on the possibility of systematically selecting future leaders. In the article, he quotes Capital One's CEO, Richard Fairbank, who said several years ago, "At most companies, people spend 2 percent of their time recruiting and 75 percent managing their recruiting mistakes." At the end of the article, he leaves us with the following questions,

- "Are there leadership jobs in business for which it is simply impossible to select people with any degree of confidence?"
- Do behaviors change when one is anointed with the power of a leadership position?
- Are we condemned to an on-the-job training approach, with the attendant obligation to correct mistakes quickly (which boards understandably are reluctant to do)?
- Or are there more affordable approaches to the problem?"

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Further evidence of this “crisis of leadership” is⁹ in a blog post by Steven Smith who quotes a Rutgers and University of Connecticut poll, which found “58% of workers believe most top executives put their own self-interest ahead of the company’s, while 67% don’t believe their bosses have the team’s best interests at heart.” If your employees believe that you are acting in self-interest, it is hardly likely that they will put the organisation’s interests above their own.

HR acting more like a teenager, or not

The apparent failure of many in HR to fully appreciate the opportunity to rethink the HR role in light of the current crisis is illustrated by recent comments from Jackie Orme, CEO of the CIPD in the UK¹⁰, where she states that “the profession is still in its teenage years and has some way to go.” In my view this exactly sums up the problems facing HR, if only HR acted more and not less like a teenager, then maybe they would have greater influence or impact on organisational development and strategy? For example if HR was more disruptive, idealistic, technology-focused, pushy and wilful then maybe things would be different.

So if the framework for the HR response to recent events is not coming from the establishment, where are the new ideas coming from? Unsurprisingly, these key issues are being addressed by the wider community. This quarter there have been some articles which focus on HR relevant areas such as recruitment, change, retention, innovation and talent management as a way to redefine the way organisations func-

tion.

Command and control, enterprise 2.0 and amplified workers

There seems to be a growing consensus that executives need to get used to less control and adjust their outlook accordingly. In a blog post¹¹ Jon Husband writes about a talk given by Cisco CEO John Chambers who stresses how organisations are increasingly being built on virtual terms, technology means that collaboration is likely to increase while day to day contact decreases. In a further discussion around the role of Enterprise 2.0, these sentiments are also echoed by Léo Apotheker, co-CEO and a member of the Executive Board of SAP and Andrew McAfee of the Technology and Operations Management Unit at Harvard Business School¹².

The growing importance of social networking is well documented, however this article¹³ at Deloitte raises some interesting questions on how this may impact on future leadership selection. In the article, the authors focus on the need for organisations to embrace new social media technologies and communication methods. Of particular note is the assertion that networks are being formed without the knowledge of management. In a section headed, the rise of the workplace “superheroes”. The article quotes research from The Institute of the Future in Palo Alto which forecasts that successful organizations will turn to “amplified workers” who are able to harness the latest technology and combine it with an ability to communicate and collaborate across a wide variety of platforms.

This raises a number of direct challenges to HR, firstly the requirement to fully embrace new technology and in particular social media and all the control issues that go with it and secondly to come up with ways to identify and engage with these “amplified workers”. In order to gain the maximum benefit from these workers, it is possible that organisations will have to remove layers of bureaucracy or bypass systems which have been used to maintain structure and control.

Similar sentiments are echoed¹⁴ by Keith Harrison-Broninski who in talking about Human Interaction Management (HIM) encourages every level of management to focus on and do what it does best. To enable this however is going to necessitate less top down control and a relinquishing of certain aspects of oversight by senior management. This is also something that encouraging the increased use of social media will also require as it will be impossible for managers to control or even be aware of the growing number of social networks and interaction. Coming back to the teenager analogy, the failure of HR to embrace new technology or Web 2.0 is also acknowledged in a report by the CIPD¹⁵.

Successful recruitment via a self directing process

This moves things on nicely to recruitment, another bugbear for Beatty. I recently watched a talk given by Ricardo Semler of Semco at MIT Sloan¹⁶, who has successfully implemented a number of interesting initiatives which have marked his organisation out as a beacon of innovation and forward-thinking. This is an inspiring

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talk and although it took place last year, I didn't pick up on it until January and felt compelled to include it in this quarter's material. In fact Semler goes as far as anyone has yet to articulate a new way of running organisations and I suggest anyone with 30 minutes to spend has a watch. One of the ideas which particularly struck a chord, particularly in light of Beatty's comments above is Semco's approach to recruitment;

"The [typical] process of recruitment and selection in a company is basically an internet dating process. You say your company is Brad Pitt and she says she's Angelina Jolie and you go and meet at a bar...You get together for two quick meetings and then you decide to get married and hope it works..."

[Instead of that,] we take qualified candidates, the ten that fit the bill, and ask them to come in together. Then we have whoever wants to be involved interview these people. This will go for hours. Then [the interviewers] write down the two people who they want to keep. The two who score highest come back and spend the whole day here and talk to anyone they want...The result is less than 2% year turnover."

This figure I'm sure would make Prof. Beatty's blood boil but from where I am sitting it looks pretty impressive.

Having looked at Ricardo Semler's entry on Wikipedia¹⁷, his story is quite remarkable, becoming CEO of Semco at 21 following arguments with his father and threats to quit the company over its future direction. He embarked on a radical diversification programme

which included firing 60% of the senior managers on his first day in charge. Clearly a man unafraid to challenge conventional wisdom and willing to accept the failure of some ideas, turnover has grown from \$4 million to \$212 million in 2003. One question that pops into my mind is, would Semler have been as successful or even have been identified as a potential leader if he had a more conventional business background? Or would his ideas and radical views have been squeezed out of him by a combination of office politics, poor talent management and a lack of leadership development? How many Ricardo Semlers are there out there who never get the opportunity to put their ideas into practice?

One of the reasons that I believe this process has worked for Semco is that because the company has such a clearly defined culture and set of values, this recruitment by committee essentially acts as a filter which ensures that only the candidates likely to fit in or align with the companies values get recruited. Understanding the skills and experience of each candidate is something HR has got down pretty well. The next stage is to understand the intangible impact of each hiring decision, issues such as relationships, culture and values are key issues but are often overlooked or pegged as 'gut-feel' when decisions are made. The Semco model goes a long way to overcome this. Also worth noting is the seemingly minimal impact of the HR function on this process.

A lack of creativity and death by data

In contrast, a recent profile of Google's

vice president of search products and user experience, Marissa Mayer in the New York Times¹⁸ recounts the following anecdote; "At a recent personnel meeting, she homes in on grade-point averages and SAT scores to narrow a list of candidates, many having graduated from Ivy League schools, whom she wanted to meet as part of a program to foster in-house talent. In essence, math is used to solve a human problem: How do you predict whether an employee has the potential for success?"

"A scrum of executives sit around a table, laptops in front of them, as they sort through résumés, college transcripts and quarterly reviews. The conversation is unemotional, at times a little brutal."

"One candidate got a C in macroeconomics. That's troubling to me," Ms. Mayer says. "Good students are good at all things."

I was a little taken aback by this comment, perhaps naively it is something I would expect at a Wall Street investment bank (pre-crash obviously) and not Google, with its reputation for creativity, innovation and developer of unconventional and leftfield ideas. I must admit that I had put this article to the back of my mind. That was until I saw this blog post from Google's now ex-head of design Douglas Bowman.

"When a company is filled with engineers, it turns to engineering to solve problems. Reduce each decision to a simple logic problem. Remove all subjectivity and just look at the data. Data in your favor? Ok, launch it. Data shows negative effects? Back to the drawing board. And that data eventually

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becomes a crutch for every decision, paralyzing the company and preventing it from making any daring design decisions."

"Yes, it's true that a team at Google couldn't decide between two blues, so they're testing 41 shades between each blue to see which one performs better. I had a recent debate over whether a border should be 3, 4 or 5 pixels wide, and was asked to prove my case. I can't operate in an environment like that. I've grown tired of debating such minuscule design decisions. There are more exciting design problems in this world to tackle."

This is very interesting and something at odds with the carefully cultivated public image of Google which suggests a far more intuitive and creative approach to new product development and design.

This begs the question, how does Google or any other organisation cultivate the creative or leftfield individuals who thrive in conditions of change or uncertainty such as we are experiencing at the moment? In other organisations the research suggests that large companies struggle to accommodate or reward these people. In a Strategy + Business article¹⁹, the authors suggest that successful change agents are often ignored or fail to gain the recognition their efforts deserve. "Although 85 percent of the major change initiatives we studied met or exceeded the performance goals set for them at the start, fewer than 30 percent of the initiatives' full-time leaders were promoted — and the same percentage were terminated or left their companies voluntarily at the conclusion of the change effort. The

remaining 40 percent either remained in their positions or moved laterally in their organizations."

A similar issue is raised by George Ambler in his blog²⁰, in this case he refers to the "mavericks" in every organisation who often find themselves marginalised, he quotes Hans Hans Finzel, in The Top Ten Mistakes Leaders Make; "Have we made it impossible for bright rising stars and maverick go-getters to live within our organisation?' When we become too preoccupied with policy, procedure, and the fine-tuning of conformity to organizational standards, in effect, we have squeezed out some of our most gifted people." Ambler goes on to conclude that;

"Mavericks are essential in every organisation. Giving them the encouragement and space to contribute makes all the difference. Mavericks matter... because they bring us the future."

Given the current economic conditions this is a pressing issue which organisations, even ones such as the mighty Google may need to address.

Arguably, these are the people who will help prepare organisations for "The New Normal" which is tentatively explored in a McKinsey essay by Ian Davis²¹. He claims that;

"For talented contrarians and technologists, the next few years may prove especially fruitful as investors looking for high-risk, high-reward opportunities shift their attention from financial engineering to genetic engineering, software, and clean energy."

The big picture HR role

No doubt the current economic crisis places a number of organisational issues central to HR at the heart of the debate. In short, given their view of the organisation, HR practitioners are in theory well placed to help navigate a way out of the current mess. However, the question of whether existing HR executives are equipped or able to lead this discussion is one which has been posed by Donna Bear²² and also in a podcast²³. She points to examples of high profile companies, in this case Microsoft and LinkedIn who have both appointed HR executives with zero HR experience. The leadership vs technical skills debate is not a new one, however in this instance I think that it heralds a further dislocation between the HR process and systems role and what one could call the "big-picture" HR role. Bear quotes LinkedIn CEO Dan Nye;

"...when it comes to people, I always put a premium on people who are incredibly bright, who demonstrate strong leadership skills, and where they have strong critical thinking skills and really strong communication skills. I will always put a premium on that over functional experience."

In order to step up, HR executives may have to put aside their previous procedural experience and demonstrate an ability to communicate and connect with their audience on a level that goes beyond the standard HR systems and processes. A grasp of organisational values and understanding of the role of culture and collaboration will mark out those with the ability to set the people agenda.

Perhaps because both companies

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recognise the pivotal role that HR is going to play in the future, they have hired these people who they believe are going to raise the profile and influence of the function. Not damning of HR in itself but recognition of the strategic importance of the role.

Innovation, change and new ideas

There has been a lot written about innovation and the role that it could probably play, as we have already seen many, particularly large organisations struggle to identify and accommodate those most likely to instigate change and new ideas. Given that this is often a barrier to innovation, a recent McKinsey article²⁴ Amar Bhidé takes a look at the role or value of innovation to organisations and the wider economy and gives it a good shake. In summary he claims that it is not important where or by whom innovation takes place but who commercialises it. The role of licensing has always played an important part in the development of new products, however, encouraging organisations to essentially outsource their innovation is something which opens up a number of possibilities.

Licensing new technology or ideas is something which could potentially be of considerable organisational and national benefit. Licensing a new technology could potentially save compa-

nies considerable time and money that would normally be spent in acquiring a competitor or innovative start-up. As we have seen already, large organisations often struggle to accommodate the innovative or disruptive and by keeping this relationship at arms length rather than trying to combine two very different cultures may be an idea worth exploring.

Recent years have seen many organisations taking a more sophisticated approach to acquisitions, taking into account intangible issues such as culture in the integration process. However, given the recent financial crisis it seems as though these lessons are being forgotten. A Towers Perrin article²⁵, points to research which suggests that acquisitions are being increasingly rushed through. Clearly this is a case of short-term expediency taking precedent over long term considerations, with many of the issues likely to affect the success of the transaction glossed over.

Finally, I thought that I would highlight an interesting talk²⁶ given by Umair Haque of Havas Media Lab. Here Haque talks about the need to reinvent capitalism, stating that competition is obsolete and that it fundamentally destroys value. He calls for a radical rethink in the values and motivation of organisations. Whilst I don't necessarily agree

with everything he has to say, people like Haque are likely to increasingly influence the focus of organisational development.

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Footnotes and References

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About Four Groups

Four Groups have developed a new approach called 4G to understand behaviour, relationships and culture. 4G provides its users with insight into personal characteristics, how relationships develop within teams and groups and how culture can be best defined and managed.

4G provides organisations with information on how best to deploy and optimise the performance of their people. It also enables preventative measures to be taken which minimise the less productive aspects of interaction and group dynamics such as friction and misunderstanding between colleagues.

4G represents a systematic approach to managing the previously intangible aspects of organisational life. The methodology is easily replicable and can be implemented quickly and efficiently.