

Linking Behaviour to Bottom Line Performance

Leadership, Intangibles & Talent Q2 2010

Welcome the second review of 2010. In this issue we have a ramble around current thinking on engagement, kick the tyres on organisational behaviour and give the old leadership tree a good shake. We'll also explore the following themes;

- **Engagement**
- **Strategic HR**
- **Productivity**
- **Complexity**
- **The Dunning Kruger Effect**
- **High Potentials**

Articles are included from the likes of Accenture, BP, Charlene Li, Gary Hamel, Google, HCL Technologies, MIT, Sainsbury's, Seth Godin and Strategy + Business.

Going through this quarter's articles, blogs and research, the key word or theme for this quarter is "complexity" and in particular how organisations should be embracing what is inherently complex, rather than trying to simplify and standardise across the board. This desire to simplify can range from high-level decision-making to talent management, where in many cases things are not always as they seem.

Engagement

Regular readers of this update will know that employee engagement has been flavour of the month in corporate boardrooms for some time now. It seems that organisations are waking up to the fact that engagement and the

willingness to go the extra mile in terms of discretionary effort is not necessarily down to pay and benefits but a far more complex and intangible set of criteria that require specific insight and understanding of culture, relationships and values.

Given the number of conferences and seminars on offer covering engagement it appears that there is a cottage industry developing to guide senior executives through this tricky area. However, with engagement unlike some areas of corporate development, teaching executives about how to engage their people suffers from a number of inherent difficulties. Firstly, can something as naturally intangible as engagement be taught in a systematic

manner? Secondly, do organisations and more specifically, senior executives actually want engagement given the change in outlook and culture it will require?

In a blog post¹, Michael Specht lists five criteria for successful engagement:

- Involvement in decision making
- Feel they are able to voice their ideas, & managers listen to these views
- Have line of sight between employee performance & company performance
- They have career development
- When the organisation is concerned for employees' health & wellbeing

To this I would also add strategic and

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cultural alignment, i.e. the organisation acts in a consistent manner with its stated goals and values.

These bullet points reflect the broad consensus emerging for the prerequisites for successful engagement, in particular the Macleod Review from last year² and Dan Pink's recent book *Drive*³ detail similar requirements. Anyone unfamiliar with Pink's work can do a lot worse by watching this enthralling animation of a talk he gave to the RSA⁴.

Surely, given the evidence supporting the case for improved engagement is something all organisations are striving for? Well, I'm not convinced that many are willing or able to undertake the necessary changes in outlook and culture to achieve this. Digging a little deeper it appears that pursuing engagement as a key strategy in boosting performance is going to require change or a reversal in corporate attitudes that many executives may find too unpalatable or difficult to achieve even if they wanted to.

By looking a little closer we can actually start to understand what an organisation would look like if it were to really focus on cultivating engagement as a key value. To start off with one of the main requirements of engagement is to give people autonomy or control over their role and an active say in decision-making.

This came up in a provocative blog post by Paul Gillin⁵ entitled *Gain Control by Giving it Up*, where he talks about a new book called *Open*



Leadership by Charlene Li⁶. In her book Li puts forward the notion that the traditional model of focusing hierarchical reporting and concentrating decision making and influence in the hands of a few senior executives is damaging to organisational performance. This is not a new idea but on this evidence I think Li makes a very strong argument.

“Open Leadership will make a lot of people uncomfortable because it proposes that the only way to govern effectively in a transparent business world is to give up control and trust people to do the right thing.”

“Li asserts that today’s business world is too complex and competitive to permit organizations to continue to manage the way they have since the Industrial Revolution. That top-down philosophy assumes that people are idiots who can’t accomplish tasks without instructions, rigid rules and constant oversight.”

“New business leaders set examples, demonstrate confidence and create cultures that tolerate intelligent, well-intentioned failure.”

Li is not alone in her views on the damaging nature of traditional organisa-

tional structure, these are reflected in an excellent blog post by Gary Hamel⁷ in the Wall Street Journal.

“I believe that many of the tools and methods we use to manage people at work are ill-suited to the challenges of succeeding in today’s “creative economy.” All too often, legacy management practices reflexively perpetuate the past—by over-weighting the views of long-tenured executives, by valuing conformance more highly than creativity and by turning tired industry nostrums into sacred truths.”

“we should remind ourselves that dogma often masquerades as truth, and that we are often comforted by the deception. There are many who would prefer a lazy ramble along the gentle contours of the tried-and-true then a hard scramble up the rocky incline of the untested and unproven.”

Hamel goes on to cite HCL Technologies CEO Vineet Nayer as someone who has successfully managed to “invert the pyramid” and empower employees so that they are at the heart of the organisation.

“We must destroy the concept of the CEO. The notion of the ‘visionary,’ the

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'captain of the ship' is bankrupt. We are telling the employee, 'You are more important than your manager.' Value gets created between the employee and the customer, and management's job is to enable innovation at that interface. To do this, we must kill command-and-control."

This same view of challenging the traditional role of leaders is echoed in a Financial Times article by John Kay⁸:

"Domineering chief executives often fill their boards with cheerleaders, and rarely seek sceptical counsel. An army of professional advisers can hardly wait to get its hands on fees. The independence of equity analysts is compromised by their association with deal-making banks. Both analysts and journalists find their access depends on good relations with the businesses they cover. Many of the worst deals were widely applauded when announced. The modern cult of the heroic chief executive is at the root of the problem."

To underline the need for radical change in the role of organisational leaders, Gary Woodill⁹ argues that traditional management of activities such as strategic reviews, long-term business planning and centralised setting of objectives is a waste of time.

"What is interesting is that new methods have been developed in providing companies foresight, at least for a few years. But most strategic planning is an extension of the past."

Giving up what we have long held to be productive and positive is some-

thing that Jeff Sutherland blogged about¹⁰:

"Study after study at MIT and around the world show that incentive bonuses cause people to perform worse if they have to do any thinking in their job. (Hopefully, that is most of us.) Of course, all the research shows performance appraisals demotivate people but we still hand out performance appraisals thinking that will help employees improve performance proving that much of what we think and do is fundamentally flawed."

In her book Li argues that decentralising power is an inevitable change that organisations are going to have to make. I think that many organisations or those leading them run a mile from this concept and most organisations are currently moving in the opposite direction. Advances in technology and the recession have meant that organisations are monitoring and looking to standardise their employees activities on a greater scale than ever.

With greater monitoring and the unsuitability of traditional organisational command and control, mediocrity is perpetuated and people are forced to take a narrow view of their role in the organisation. A blog post¹¹ by Johnnie Moore discusses the idea of "closing the field":

"services get analysed by experts and chopped into smaller functional units. Front and back offices are created; some back office functions then get outsourced. Each unit is given its own performance targets. For example, a call centre operator has to clear 60

calls a day. Inevitably, everyone learns to game the system; one way to deal with lots of calls is to cut people off or pass them along - leading to even more calls later etc etc."

In short, what is required is not a new strategy to focus on engagement but a new organisational culture that places engagement at its heart to highlight the difficulties in effecting cultural change, Gautam Ghosh¹² highlights a video entitled "Culture eats Strategy for Lunch".

The reality is that the vast majority of organisations have a culture or organisational structure that suits the command and control mindset. Advances in technology have meant that it is becoming easier and easier to micro manage and standardise procedure to the nth degree. The upshot of this is that it actively disengages people from their role and perpetuates poor performance. My feeling is that faced with the choice of giving up control and influence or maintaining the status quo the vast majority of modern executives will go for the latter.

Part of this is inevitably down to the herd mentality. As with bonus culture, the negative effect on performance is well acknowledged. The reason cited by executives however for sticking with bonus culture is that everyone else is doing it. It will take a brave leadership team to abandon the traditional command and control mindset.

This does not mean engagement will not continue to feature heavily in discussions and in seminars and conferences. Enterprises will still continue to

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roll-out annual engagement surveys and I suspect many organisations will be on the hunt for marginal increases in engagement, if it means the culture stays the same.

Strategic HR

This got me wondering, if engagement is something that people are happier talking about and measuring rather than executing, what other “sacred cows” are there that are appealing in theory but likely to remain out of reach in the real world? The obvious one would be strategic HR.

Once again, this quarter has seen a plethora of articles and blog posts outlining the key role HR has to play in the organisation of the future. Research conducted by Google was highlighted in a HR Magazine article¹³ where a persuasive argument is constructed from the data for the role of “human systems director”.

“As collaboration and innovation accelerate, thanks to new enabling technologies, elements of the HR and IT functions will integrate and HR and IT roles will shift as they adjust to the ideas economy.”

“HR will need to ensure employees are motivated to collaborate and innovate, with the study finding that 34% of HR personnel agree they will need to learn new skills to foster a sense of corporate community”.

This viewpoint is supported in an article from Fast Company¹⁴, which discusses how HR is theoretically at least, well positioned to play a central role in the

organisation of the future:

“HR was once thought of as the hiring, orientation, and birthday party crew. But, not anymore, not in today's interconnected, globally competitive world. Smart organizations are realizing that strategic talent recruitment and human capital development are the new differentiators. Bringing HR to the senior strategy team is gaining currency.”

“The wisdom to embrace strategic HR demonstrates not just that people are the central resource for an organization, but that their calculated, mission-driven development is at the center of competitive excellence.”

Like the support for engagement all these points are highly compelling and make strong intuitive sense, however is this viewpoint reflected in reality by the visible actions of organisations? Are we seeing a more diverse cadre of HR executives emerging who are capable of delivering a more strategic alternative and abandon the traditional role of HR? These visions of the future strategic capability are put under scrutiny¹⁵ in a Wharton survey:

“It's puzzling and a little surprising,” says Wharton management professor Peter Cappelli, co-author of the research along with Yang Yang, a Wharton post-doctoral fellow. “Everyone says that HR executives need broader experience as well as more business experience, but it looks like it is still a 'siloesd' career.”

The article suggests that HR continues to see itself as a profession within the organisation. However, if it is to reach

it's strategic goal, this needs abandoning in place of a more general role requiring a broader level of business experience:

“professionals approach problems differently than leaders with more broad-based experience. “General purpose business executives are trying to figure out what makes sense for the organization, while a professional acts like an accountant or a lawyer with a standard set of solutions to problems. The business executive says, ‘Let's figure out what works for our business and makes the most sense for us,’ rather than turning to a standard tool kit and rolling out an accepted solution.”

Buried at the bottom of the article is this very telling paragraph:

“Within human resources management, the authors also examined the type of HR experience that led most often to the top job....Notably, the biggest increase in experience was in employee surveys, which the authors suggest could indicate a greater emphasis on “HR metrics” in the years between 1999 and 2009. Salary and benefits are the major cost for most companies, and Cappelli suggests that top management is concerned with measuring and accountability when it comes to this large outlay.”

This is very interesting and in my view about as far as you can get from a trend towards a more strategic role for HR. If the people at the top of the HR tree are the ones who owe their lofty positions to their ability to number crunch and interpret the data for the board what chance is them either abandoning this

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role in favour of a far more strategic alternative.

Similar themes are highlighted in a HR Magazine article by Chris Roebuck¹⁶, in arguing that the transactional side of HR can be outsourced, he goes on to say:

“So what does HR need to do so survive, in both public and private sector? Propose change and savings before they are thrust upon you. Assess what HR is really there for and deliver appropriate structure and strategy. Proactively focus on key organisational deliverables above all else.”

In other words this strategic HR debate is analogous to the difficulties in tackling engagement. The people at the top of the tree i.e. people who need to execute this are the ones least capable or inclined to actually deliver the required changes.

Interestingly, just as I was writing this update Sainsbury's announced that it was creating a new Customer Service and Colleague director role for Gwyn Barr. The role seems to subsume HR within it and blends customer's and colleagues together. You can read more about it¹⁷.

Productivity

It can be argued that the organisations requiring the most radical change are the largest ones where the culture of command in control and standardisation is most heavily entrenched. Ironically, these are the types of organisation who it can be argued would be the ones to most benefit from an

increased focus on engagement. As Allan Englehardt highlights in his blog¹⁸:

“Large companies with ten times the number of employees are only a quarter as productive as their smaller competitors. Employee productivity is a big issue. If all the FTSE-100 companies achieved their average profits per employee, then the index would generate almost £1 trillion of additional net profits for the economy.”

Interesting stuff, Englehardt goes on to speculate that this could be due to:

“Bigger companies may have more meetings with more people attending slowing down decision times, innovation velocity, and productivity.”

Complexity

It would be remiss of me to not mention the articles that have come out discussing the BP oil leak in the Gulf of Mexico. Particularly pertinent to themes already discussed in this issue is this piece over at HBR¹⁹, where the authors discuss whether:

“much of this disaster actually have been the result of a massive organizational failure not of people but of design?”

In particular the authors focus on the reorganisation of BP's operational structure in a programme implemented when CEO Tony Hayward took over.

“And reality is complex. When it comes to decision-making, any universal

imperative that forces sub-organizations to flatten and pushes teams to expand in size regardless of local circumstances is foolish. This wasn't obvious at the time. BP raked in record profits over the past two years — although it also developed quite a record for safety violations. But the oversimplification of management structure — which played out on rigs as well as in cubicles — was a disaster waiting to happen.”

It would appear that a corollary of acknowledging complexity is an increased acceptance of what Charlene Li termed “well intentioned failure”. Coming back to an appreciation of failure, in an interesting article over at S+B²⁰, this another example of advocating an appreciation of complexity, the authors argue that trial, experimentation and a willingness to accept failure is a key element of delivering sustained innovation and effective collaboration:

“The speed and complexity of the global business environment calls for a new appreciation of a systems-focused view of the world, one that recognizes the interrelationships of people, processes, and decisions — and designs organizational actions accordingly. The intellectual roots of systems understanding are very diverse, but they converge around three interrelated assumptions. First, because many of today's organizations are complex and ever-changing, static solutions that try to lock in any ongoing management solution are likely to become new sources of destabilization themselves. That is why organizations need to be dynamic — capable of adapting to

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unexpected developments.”

“Second, organizations must have a capacity for widespread experimentation and trial-and-error learning if they are to be self-correcting. Finally, although a systems view requires an understanding of how all the parts fit together as a whole, it also depends on an intimate understanding of the parts themselves. This is because change in any part of the system or in its outside environment — including the other systems to which it is connected — can produce profound ripple effects. Significantly, these assumptions all recognize the importance of human participation in decision making.”

In a blog post Seth Godin refines this outlook with a good take on the different type of failure that can actually strengthen an organisation²¹.

By simplifying and standardising, we remove our ability to tailor local solutions, this stifles innovation and ultimately disengages staff. Simplified structures enable easier decision-making but that does not necessarily equate to better decisions. To further support the argument against standardization, there was a good article over at Accenture²² that argues that businesses need to take a bespoke approach to employee development across the board:

“Given the realities of today's complex business environment, it is no longer possible to satisfy a workforce with one broad, standard approach to managing talent. A perfect storm of events and trends is pushing organizations to

abandon the traditional employment compact along with the one-size-fits-all approach to human resources.”

“But in an era of growing diversity, more complex knowledge work in which jobs are increasingly difficult to standardize, a shortage of qualified workers and talent-driven competitive advantages, today's generic people practices will be quickly rendered obsolete—and increasingly detrimental to the bottom line.”

The Dunning Kruger Effect

Over the past couple of months there have been a number of articles discussing the Dunning Kruger effect, this all started with a New York Times interview with David Dunning²³ I must admit that I had not heard of this before but it certainly raises some questions about talent management. There is a Wikipedia definition²⁴ and Kevin Hoffberg has a blog entry²⁵, which summarises the NYT interview:

“When people are incompetent in the strategies they adopt to achieve success and satisfaction, they suffer a dual burden: Not only do they reach erroneous conclusions and make unfortunate choices, but their incompetence robs them of the ability to realize it. Which led to my observation: if you're incompetent, you can't know you're incompetent.”

In other words:

“We're not very good at knowing what we don't know.”

For those who like to get into the detail, Dunning Kruger is discussed in

another blog entry²⁶ from a sceptical Tal Yarkoni.

I'm sure that there is something to the Dunning Kruger effect. For organisations, I think the main implication is in the field of talent management, in particular how we evaluate how well people are at doing specific tasks and more importantly how we predict how people will do in other more challenging tasks. All this talk of complexity got me thinking that unlike in the old days where objective or mechanical tasks were the norm, i.e. how many widgets you can make in a particular time, it was pretty easy to tell how well an individual was at a particular task. In such cases the Dunning Kruger effect would have a limited impact because objective comparison of performance is relatively simple.

However, for most activities in modern organisations, outputs are subjective in that success or failure is difficult to accurately gauge or quantify, allied to this is the seeming interconnectivity of everything. This means that it is much harder to isolate the specific drivers of performance. In other words performance in most activities ends up measured in shades of gray rather than in black and white.

This can lead to all sorts of confusion and problems when it comes to understanding present and predicting future performance. This becomes even more complex if you throw in the Dunning Kruger effect. If we can't accurately tell if we are good at something ourselves what chance has the organisation of effectively identifying those most likely to succeed.

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High Potentials

The difficulties in effectively developing an effective talent management programme are highlighted in this recent HCI article²⁷:

“programs aimed at this class of talent are usually organized around some sort of annual nomination process and offer targeted leadership development opportunities such as business rotations and special stretch assignments. But despite the prevalence of these programs, most haven’t delivered much in the way of results. Our recent research on leadership transitions demonstrates that nearly 40% of internal job moves made by people identified by their companies as “high potentials” end in failure.”

In discussing ways in which organisations can improve:

“The “high potential” designation is often used, at least in part, as a reward for an employee’s contribution in a current role. But most people on your leadership track will be asked to deliver future results in much bigger jobs – a consideration that often gets overlooked when senior management anoints talent.”

In my view, it’s not necessarily the size of the future role but the circumstances surrounding it. There are so many variables that affect individual and group performance that it is no wonder that so many organisations struggle with effective talent management and succession planning. In many cases organisations are failing to take into account intangible factors that influence per-

formance, issues such as key relationships, cultural fit and values all play a significant part in performance.

Well, that’s all for this update. As always any comments and feedback is most appreciated.

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Footnotes and References

1. <http://fourgroups.com/link/?151>
2. <http://fourgroups.com/link/?152>
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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.

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