

Four Groups Quarterly Update

Leadership, Intangibles and Talent

Q4 2010



2010 – The year of complexity

Welcome to the final round-up of 2010. In this issue we have brought together an assortment of provocative articles focusing on;

- Complexity
- Training
- Systems Thinking
- Innovation

Featured in this issue are articles from: Steven Johnson, John Hagel, Peter Senge, Richard Donkin and examples include HCL, the NHS, Minnesota public schools and the Roman Empire!

Questioning Current Beliefs

One of the strongest themes running through articles in 2010 has been that organisations are still poorly prepared and ill-equipped for dealing with major change of any sort. The main criticism is that business leaders continue to try and solve complex and intangible organisational issues through analytical approaches designed to simplify and standardise systems and procedures.

Unfortunately for businesses, evidence is gaining that the simple or most obvious course of action is unlikely to be the best option. Throughout the year we have seen many articles that have questioned some of the fundamental beliefs about organisational behaviour. For example, Richard Donkin has a blog post¹, where he questions the widespread use of psychometric testing for selection:

“...as far as I can see, recruiters continue to rely too readily on the outcomes of tests that can be easily faked or misinterpreted.”

I think that there is more to it than that and the potential for faking answers is only one area that throws doubt on the use of traditional psychometric tests for recruitment. Donkin cites an article² on the OPRA Learning Blog, which rounds up some of the most recent academic research into the link between psychometrics and job performance:

“Business leaders still continue to be caught up in the cult of personality and believe that there is a huge array of differences between various measures when they amount to the same thing.”

“Personality tests are far more similar than they are different. To pay exorbitant amounts for something that accounts for a mere 4% of variance related to performance is just mindless.

¹ <http://www.fourgroups.com/link/?210>

² <http://www.fourgroups.com/link/?211>

As always, we should blend research with practice to determine usefulness.”

So who is to blame for this state of affairs? Clearly the main culprit has to be the testing companies, however it would be churlish of accusing them of obfuscation of the facts when they are clearly only guilty of acting in their own self-interest and in all honesty are doing a very good job of it. Instead, I can't help but think that HR has sold the business a duff one here. On the one hand, psychometrics can be very useful in some situations, however those HR professionals advocating the use of traditional psychometrics for selection are clearly guilty of misunderstanding the key drivers of successful selection.

One of the problems here is that for many, the use of psychometrics represents a beguiling proposition to employers where hugely complex variables are boiled down to a few metrics.

My own view is that success in a particular role is dependent on so many more variables than the personality or even the abilities and experience of the individual in question. Arguably, factors such as corporate culture, economic conditions and particularly working relationships combine to play a key role in performance.

A good example of this is a recent posting by Thomas Sander on the Social Capital blog³ where he discusses

3 <http://www.fourgroups.com/link/?212>

recent findings from Gallup survey on the importance of relationships and in particular the role of friendship in the workplace:

“Those who had best friends at work (only 30% of Americans) were 7 times more likely to be engaged with their job, they exhibited higher sales and profitability, better engaged customers, produced higher quality work, had greater commitment to the firm's mission, had better safety records (since friends often made sure they were complying with safety precautions), were happier at work, and had a higher chance of sticking with a firm. If workers didn't have a best friend, only 8% of them were engaged in their job.”

I do believe however that there is some light at the end of the tunnel and we are getting much closer to being able to predict performance in a particular role far more effectively. Thanks to new technology and improved understanding of social dynamics, we are starting to see a new breed of tools that take into account these complex variables to provide a more effective means of predicting performance in the workplace. Tools such as our own 4G methodology⁴, and companies such as Evolv Technologies⁵ and Data Hug⁶ all represent advances in this area and look beyond the beguiling yet simplistic factors such as previous experience and personal profile information that have been misguidedly used to indicate future performance.

4 <http://www.fourgroups.com/>

5 <http://www.evolvondemand.com/>

6 <http://www.datahug.com/>

Training

In addition to psychometrics, another major area of HR responsibility, training, has also come under scrutiny this quarter. In the always entertaining myhellisotherpeople⁷, anonymous blogger The HRD writes:

“I’ve come to a conclusion. A conclusion that worries me less than it probably should. Training doesn’t work. Well not in the sense that it is suggested that it does. It is a complete crock of shit and waste of time. Most training interventions are little more than a placebo. At best employees go away with a sense of having been “invested in” at worst they go away with a sense of bafflement and confusion and having been “done to” by the organisational big brother.”

In a similarly provocative style, Johnnie Moore on his blog⁸ takes aim at another HR holy cow, learning styles. In this blog post, he discusses Ruth Clark’s recent book⁹:

“I’ve long had a visceral dislike of these kinds of classification systems and the way people seem to present themselves as if they have to learn things in a certain way. We’re a lot more complex and versatile than these pigeonholes suggest. And I shudder to think of the money that is still being invested in profiling people and

⁷ <http://www.fourgroups.com/link/?213>

⁸ <http://www.fourgroups.com/link/?214>

⁹ <http://www.fourgroups.com/link/?215>

designing material around something that seems akin to astrology.”

Systems Thinking

Building on the idea that traditional approaches to complex organisational issues are insufficient, we are seeing more articles advocating a more holistic approach to problem solving. The traditional strategic approach to such problems where one would look to gain control of an issue through standardisation and simplification is coming under increasing scrutiny. A number of these ideas are well summed up in this detailed piece on complexity theory¹⁰ by Dave Pollard:

“Complexity theory argues that simple, complicated, complex and chaotic systems have fundamentally different properties, and therefore different approaches and processes are needed when dealing with issues and challenges in each of these types of systems.”

“the more complicated manufactured systems become, the harder they become for humans to ‘manage’. Large organizations (businesses, public organizations and governments) therefore become inherently more and more dysfunctional (and less resilient) the larger they grow.”

“As we come to understand complex predicaments better, we’re learning that the best approaches to them are very different from what works best for simple or complicated problems.

¹⁰ <http://www.fourgroups.com/link/?216>

Because all the variables cannot be known, and because cause-and-effect relationships cannot be established in complex situations, analytical approaches (like systems flowcharts) used in complicated problem-solving simply won't work."

The ideas that Pollard highlights are reflected in another good blog posting from Jamie Notter¹¹. In it he discusses Peter Senge's book *The Fifth Discipline* which focuses on an idea called systems thinking:

"We are all operating within systems, and too often when we try to figure out what's happening or what's not working, we don't see how the bigger-picture system dynamics are generating the results we don't want. We try to fix the parts of the system, but it never gets fixed because the system itself pushes in a certain direction."

"The reason culture "eats" things like strategy or process, I think, connects to systems thinking. Culture is like the architecture of our systems, and we create strategies that make perfectly good sense, but run counter to the architecture, thus they don't work. The problem is, the architecture typically makes sense as well. It's good. It's what we want. It just creates an environment where, interestingly enough, we end up not getting what we want."

Again, another article picks up a similar tone where John Hegel III and

¹¹ <http://www.fourgroups.com/link/?217>

John Seely posted an interesting piece on the HBR blog¹² on a number of ideas based around what they term "propensity" but can also be directly related to the above descriptions of complexity and systems thinking.

"In thinking about mindset, propensity has two key components: A dynamic versus static view of the world: everything is in a state of becoming. A focus on relationships versus objects: the process of becoming is shaped by context and relationships to others."

"The org chart is an exercise in control, attempting to pin down objects (individuals, positions) in a fixed hierarchy that completely misses not only the frequent changes in personnel but the more informative informal relationships and flows of information within and without the company."

These are not new problems or issues, throughout history people have struggled to deal with organisational design. Indeed I have recently finished reading Adrian Goldsworthy's excellent account of the fall of the Western Roman Empire¹³. In his conclusion, Goldsworthy points to the inherent difficulties in managing any large organisation. He points to the fact that as individuals, we lose track of the big picture and this applied as much to the Roman Empire as it does to large organisations and governments today:

¹² <http://www.fourgroups.com/link/?218>

¹³ <http://www.fourgroups.com/link/?219>

“All human institutions from countries to businesses, risk creating a similarly short-sighted and selfish culture. It is easier to avoid in the earlier stages of expansion and growth. Then the sense of purpose is likely to be clearer and the difficulties or competition involved have more direct and obvious impact. Success produces growth and, in time causes institutions so large that they are cushioned from mistakes and inefficiency.”

“Targets themselves will over time tend to distort this sense of the wider goals even further.....As often, the targets are chosen because they are something that can be measured.”

“The targets become ends within themselves, robbing individuals within the system of any initiative. Improvements in communications make it easier for those at senior level to intervene and send instructions to those lower down and this has a similar tendency to destroy initiative.”

This argument is one that we have highlighted in many articles over the past year and has particular relevance to the way in which organisations engage and manage their people.

Counter-Intuitive

One of the things that we have tried to focus on in this review over the past 12 months are the ideas that run contrary to popular opinion. Another area of complexity that defies easy solution is the idea of leadership within the organisation. Recent research by Adam Grant,

Francesca Gino and David Hofmann was highlighted in this article on Knowledge@Wharton¹⁴ discussing the situational aspect of leadership and in particular the situations where extraverted or introverted leaders are best suited:

“When employees are proactive, introverted managers lead them to earn higher profits. When employees are not proactive, extraverted managers lead them to higher profits.”

This in itself makes sense, the problem is that within the normal corporate environment, it is the introverts who maybe do not self-promote themselves or network as effectively as their extroverted colleagues that struggle to reach senior positions.

Whether some organisations actually require leaders is posed by Inder Sadhu¹⁵ on the Forbes blog. He discusses the Avalon School in Minnesota is run by its teachers:

“Unlike other institutions, the public charter school has no principal, no full-time administrators and no director. Instead of superintendants and district supervisors, educators make decisions regarding budgeting, hiring, curricula and more.”

Although clearly not for everyone, I do wonder how many smaller organisations would benefit from such an approach?

14 <http://www.fourgroups.com/link/?220>

15 <http://www.fourgroups.com/link/?221>

Innovation

Innovation is another example of a complex problem that has continued as a notably popular topic throughout the year. Increasingly, we are seeing that there is a broad consensus emerging that acknowledges the highly complex and intangible nature of innovation. Writing in the FT, Steven Johnson¹⁶, discusses his new book *Where Good Ideas Come From* (there is a nice animation¹⁷, who looks at the environmental factors that encourage or discourage innovation.

Some of the points he makes include the idea that innovation rarely comes from one person but is more often a collision of ideas and thoughts that come together and coalesce over a long period of time. Johnson argues that at the heart of innovation lies chance, and the most organisations can do to encourage innovation is increase the likelihood of positive chance encounters. Interestingly, Johnson states that new technology and in particular social networking rather than harming the innovation process by shortening attention spans and the ability of individuals to focus is likely to increase the chance of innovation inspiring serendipitous encounters.

I think that this has a number of implications especially for large organisations looking to encourage or foster a culture of innovation. Rather than try to directly encourage

¹⁶ <http://www.fourgroups.com/link/?222>

¹⁷ <http://www.fourgroups.com/link/?223>

innovation in itself, perhaps the best course of action is to develop an environment that optimises the likelihood of positive encounters and interactions. Surely this has implications both transparency within organisations and also the extent to which new technology and social media are deployed.

Furthermore, another idea organisation need to take on board is that innovation is unlikely to come from formal or senior management initiatives. Johnson also talks about an idea called “scenius” which was coined by the musician Brian Eno:

“... to describe the unusual pockets of group creativity and invention that emerge in certain intellectual or artistic scenes”

“The serendipitous ingredients for scenius are hard to control. They depend on the presence of the right early pioneers. A place that is open, but not too open. A buffer that is tolerant of outlaws. And some flash of excitement to kick off the virtuous circle. You just can’t order this.”

Johnson recognises that to understand innovation you need to draw on a number of different fields and areas of specialisation. From anthropology, scientific history and network theory. To this I think that we can also add complexity theory.

So why innovate in the first place? Surely the purpose of innovation is to deliver prolonged competitive advantage to the organisation? This

brings us nicely to this piece over at Strategy + Business¹⁸. The discussion starts off with a short description of the inherent contradiction in trying to sustain competitive advantage, among the points made are:

- Competitive advantage is transitory
- Strong coherent culture is a pre-requisite for competitive advantage and differentiation in the marketplace
- Strong coherent culture is also a huge barrier to change and ongoing adaptation

This article then moves on to an enjoyable potted history of strategy trends of the past 50 years and makes a number of interesting points. Again, the ideas discussed in this article draw parallels with an acknowledgement of the inherent complexity of organisations and that adopting a particular “strategy” that happens to be flavour of the month is unlikely to be successful.

“The answer is not to keep adopting new theories in hopes of finding the right answer, but to develop your own capabilities-driven strategy: your own theory of coherence for your business.”

“How can your company gain the most from considering all these theories of the right to win? Only by stepping back, away from any particular answer, to look at your company’s identity as a whole, encompassing the way you expect to compete, the capabilities with which you will compete, and the portfolio decisions that fit.”

¹⁸ <http://www.fourgroups.com/link/?224>

“Most companies have relied on business strategists for strategic answers. But now we see that we have to generate our own answers — our own theory of the right to win for each company, with its unique identity and circumstances.”

One person who seems to get this is Vineet Nayar at HCL Technologies, we have discussed his “Employees First, Customers Second” approach in previous issues, there is however a good interview with him over at Strategy + Business¹⁹.

“Calling our policy Employees First, Customers Second was our way of defining this attention as our primary aspiration going forward. It was also a statement about the relationship between leaders and the people who execute. How do you maximize the experience that customers have in the value zone where they meet your company’s work? We think the answer is for management to see itself as an enabler, and for employees to see themselves as “doers” with a great deal of accountability and autonomy: the ability to choose much of what they do. In this way, we create organizations in which employees are aligned with the customer.”

Tying it all Together

As we move into a new year, what strikes me is that all of the topics most commonly featured in this review such as: talent, engagement, HR, innovation, M&A integration all

¹⁹ <http://www.fourgroups.com/link/?225> (registration required)

share a number of common features. Firstly by Dave Pollard's definition they are all complex problems and therefore require an approach that takes into account all these variables and requires detailed knowledge of an organisations idiosyncracies.

Another common feature is that all these issues are also people-based in nature. By definition people and their ability to work together, collaborate and innovate is the key to performance, on the flipside people also the cause of poor performance and failure. What is required therefore is a complex solution to the people issue, not one that is steeped in the analytics and metrics of old.

This leads us back to the beginning of the article, rather than sticking with traditional approaches such as the use of psychometrics for selection, HR needs to get out there and help solve these complex problems.

These are all real and practical issues, and the deeper into 2011 we go, the more we are going to see the practical implications of the lack of self-knowledge and understanding that most organisations have about their own activities and identities. For example in the UK, government spending cuts are likely to have a significant impact on thousands of public sector employees across the country during 2011. The blogger at Flipchart Fairytales²⁰, draws attention to the upcoming organisational disruption about to hit the NHS: "But the government isn't just planning a few mergers. It intends

to move people and funds into completely new types of organisation. These new bodies will have enough trouble just working out what they are supposed to be doing. Much of the organisational memory and expertise from NHS trusts and local authorities may be lost. If existing organisations are struggling to make efficiency savings, what hope do the GP consortiums and urban parish councils have?"

That's all for 2010. As always comments and feedback is most appreciated.

²⁰ <http://www.fourgroups.com/link/?226>

Written by

Michael Folkman, Director
michael.folkman@fourgroups.com

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 intangible aspects of organisational behaviour. The methodology is easily replicable and can be implemented quickly and efficiently.

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Four Groups Ltd.
5 St John's Lane
London
EC1M 4BH

Tel: +44 (0) 20 7250 4779
Email: contact@fourgroups.com
<http://www.fourgroups.com>



Company Number: 4650494
VAT Number: 817 7962 85
Registered in England and Wales

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