A ROAD MAP TO ORGANIZATIONAL EXCELLENCE

THE TALENT MANAGEMENT HANDBOOK

THIRD EDITION

MAKING CULTURE A COMPETITIVE ADVANTAGE BY ACQUIRING, IDENTIFYING, DEVELOPING, AND PROMOTING THE BEST PEOPLE

EDITED BY LANCE A. BERGER & DOROTHY R. BERGER

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Preface

SUCCESSFUL ORGANIZATIONS SYSTEMATICALLY DESIGN, INTEGRATE, AND PROACTIVELY implement programs that build and sustain a high-performance workforce. These programs typically focus on the acquisition, cultivation, positioning, and rewarding of employees who can best achieve their goals while remaining true to their stated values. When their approach to building a high-performing workforce is fully integrated and codified it is labeled *talent management*. Based on our research, consulting assignments, and the input of this book's preeminent contributors, we conclude that the core talent management framework required for creating a high-performance workforce consists of three elements. They are:

1. A blueprint that articulates the principles that guide the organization's strategic and tactical talent management processes. It consists of a talent management creed and strategy. A creed is composed of a widely publicized set of core principles, values, and mutual expectations that guide the behavior of an organization and its people. Collectively, the stated principles depict the type of culture an organization strives to create to achieve its unique portrait for success. The principles of the creed are embedded into its talent management strategy, building blocks and programs through incorporating its doctrines into selection criteria, competency definitions, performance criteria, internal selection and development processes, and all other relevant human resources policies and programs. A talent strategy makes explicit the types of people in whom the organization will invest. The biggest investments will be made in people who are currently contributing the most to organizational success and to those seen as having the potential for making strong contributions in the future.
2. A set of building blocks that translate a talent creed and strategy into assessment tools that classify employees based on their current and potential contribution to the organization. These classifications are necessary to implement a talent management strategy. There are three building blocks: competency evaluation, performance appraisals, and potential assessment.
3. A talent management system that incorporates building blocks into talent management implementation programs. The individual programs are integrated into a unified approach for making decisions regarding the people who exemplify the culture expressed in the creed, who are currently contributing the most to organizational success, and who are seen as making strong contributions in the future.

This book is organized into eight parts. They are arranged to provide readers with a way for creating their own talent management approach using the core talent management framework described above. The structure of *The Talent Management Handbook* is outlined below.

The Structure of *The Talent Management Handbook*

Part I establishes the talent management framework. It describes how the different elements of a human resources blueprint, building blocks of employee classification, and talent management programs are integrated into a unified approach that creates and sustains workforce excellence.

Part II defines the building blocks that represent assessment tools rooted in the organization's creed. The building blocks are competency evaluation, performance appraisals, and potential assessment. Talent management building blocks enable the organization to classify its employees based on their actual and potential contribution to organizational success and suggest the types of investment needed to enhance individual contribution.

Part III covers the deployment of the integrative system necessary to implement a talent management strategy based on building blocks. This system consists of four core human resources programs: positioning, enhancement, mobility, and compensation.

Part IV links talent management, culture, and business excellence. It describes how organization philosophies, beliefs, and values establish the parameters that govern the selection, development, and advancement of the people who shape the culture for success that drives business excellence. They include elements such as: ethics, engagement, innovation, and creativity.

Part V covers ways to use global talent management techniques to promote organization-wide leadership.

Part VI presents ways that professionals can use talent analytics, big data, and technology to make better and faster talent management decisions.

Part VII covers talent management competencies required by professionals and leaders. They have been carefully developed by The Society for Human Resource Management, Association for Talent Development, and the Organization Development Network.

Part VIII highlights significant trends that will affect talent management practices in the future.

Acknowledgments and Dedication

THANKS TO THE 77 PROFESSIONALS OF WHICH 38 ARE NEW PARTICIPANTS WHO contributed their expertise to this book.

The third edition is dedicated to the children and grandchildren of the editors: Adam and Alejandra Gimenez Berger; Craig and Alexandra Block Berger; Nancy Berger; and Cheryl, Steven, Hailey Rose, and Ryan James McGuire.

Introduction

THE *TALENT MANAGEMENT HANDBOOK* HAS BEEN RECOGNIZED AS THE MOST AUTHORITATIVE and bestselling reference book in its category.

The book's success has been the result of its capacity to:

- Identify the most significant talent management issues impacting organizations now or in the future.
- Provide straightforward, comprehensive, and understandable solutions to deal with significant talent management issues.
- Provide the best historical and current tools, methods, and diagnostics necessary for human resources professionals and operating managers to implement talent management programs.
- Present the thoughts, research, and approaches of respected and prestigious leaders in the talent management field.
- Offer unique, innovative, and comprehensive approaches.
- Build on the strong foundation of past editions.

Each edition of the book has its own novel structure. The first edition focused on the evolution of historical and new talent management techniques and methodologies as they applied to the business and social context of the era. It also set forth a framework for talent management diagnostics. Most importantly, it structured prior and current approaches into a cohesive set of guiding principles that helped readers select a talent management methodology appropriate to their organization's specific requirements.

The second edition's objective was to provide human resources professionals with improved and new approaches that could help them better address a dramatically changing set of human capital issues. These included:

- Adapting to a volatile business, social, and regulatory environment.
- Addressing the retirement of the baby boomers, the greatest talent management issue of the twenty-first century.
- Responding to a multicultural, multigenerational workforce.
- Gaining competitive advantage from the globalization of human capital.

The third edition of *The Talent Management Handbook* is differentiated from prior editions. It is based on a new approach to talent management, and it has new or revised chapters reorganized into new sections. It will guide human resources professionals in ways to use talent management programs to help their organizations achieve sustainable competitive advantage by addressing a new set of key human capital issues:

- Employing novel ways to win the battle to acquire high-quality talent that includes data analytics, sourcing, recruitment, attracting/branding, focused selection, and onboarding.
- Using "big data" to make better and faster talent management decisions that lead to sustainable business success.
- Developing and implementing talent management programs that help a workforce transform itself in response to rapidly changing business scenarios.
- Enhancing the qualifications of human resources professionals involved in one or more aspects of talent management.
- Creating and maintaining a culture of innovation, engagement, leadership, and performance.

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Part I

Using Talent Management to Build a High-Performance Workplace

Chapter 1

Using Talent Management to Build a High-Performance Workforce

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SUCCESSFUL ORGANIZATIONS SYSTEMATICALLY DESIGN, INTEGRATE, AND PROACTIVELY implement programs that build and sustain a high-performance workforce. These programs focus on acquiring, cultivating, positioning, and rewarding employees who can best achieve their goals while remaining true to stated values. When their approach to building a high-performing workforce is fully integrated and codified, it is labeled "talent management." Although there are a variety of approaches to talent management, our recent experience and research indicate that the type of integrated and codified approach typically used by high-performing organizations consists of three iterative components: a *blueprint*, a set of *building blocks*, and a *system* that effectively integrates the human resource programs cited above. In this chapter, we discuss each of the components.

Blueprint

A blueprint is a set of principles that guides the organization's strategic and tactical talent management processes. It consists of a creed and a talent management strategy.

Creed

A talent management *creed* is composed of a widely publicized set of core principles, values, and mutual expectations that guide the behavior of an institution and its people. Collectively, these stated doctrines depict the type of culture an organization strives to create to achieve its unique portrait of success. The principles of the creed are embedded in both its talent management strategy and in its talent management processes by incorporating its doctrines into selection criteria, competency definitions, performance criteria, and internal selection, compensation, and development processes. An excellent example of a creed is the Johnson & Johnson credo. Johnson & Johnson is consistently among the top groups on Fortune's Most Admired Companies list. Johnson & Johnson states, "Our Credo is more than just a moral compass. We believe it's a recipe for business success." Another highly successful company with an explicit creed is Microsoft. Microsoft's standards of business conduct are an extension of the company's values and reflect its continued commitment to ethical business practices and complying with the law. It is expected that employees are well informed and exercise good judgment when making business decisions, and the standards are designed to help them make the right decisions for themselves and Microsoft.

Most recently, creeds have been enhanced to include social responsibility, sustainability, ethical behavior, innovation, and creativity. Starbuck's creed includes reference to social and ethical responsibility. It states, "The following six Guiding Principles will help employees measure the appropriateness of their decisions: Provide a great work environment and treat each other with respect and dignity, Embrace diversity as an essential component in the way we do business; Apply the highest standards of excellence to the purchasing, roasting and fresh delivery of our coffee; Develop enthusiastically satisfied customers all of the time; Contribute positively to our communities and our environment; Recognize that profitability is essential to our future success."

An organizational creed can also include provision for an “employee brand” or “employee experience.” In Chapter 3 of this book, William Schiemann uses the term *employer brand* to refer to the “broadest reputation” of an organization expressed as an employer *talent value proposition (TVP).* It covers the primary attributes that will distinguish the employer to both potential hires and current contributors. That is, what does the contributor expect from the organization (e.g., great benefits, creative environment, autonomous work environment) and what, in turn, does the employer expect from the contributor (e.g., creative ideas, adherence to values, long but flexible hours)?

Jacob Morgan in Chapter 55 of this book defines the “employee experience” as an important force that will shape an organization’s approach to talent management. He sees it as an environment that is created when an organization focuses on making itself a place where people want to show up instead of a place where people need to show up. This shift from “need” to “want” is a fundamental change that organizations around the world face. Organizations using these approaches typically make them a centerpiece of their talent acquisition and engagement programs.

Talent Strategy

A talent strategy makes explicit the type of investments an organization makes today in the people whom it believes will best help it achieve competitive excellence in the future. A talent management strategy views a workforce as a portfolio of human resource assets that are differentiated based on an assessment of each person’s current and potential contribution to organization success. The types of people who will receive different types of investment are rooted in the organization’s talent creed. For the purpose of this chapter, we have classified the workforce into the following groups:

- *Superkeepers:* Those employees who greatly exceed expectations now and who are projected to continue to do so in the future (3 percent).
- *Keepers:* Those employees who exceed expectations now and who are projected to continue todo so in the future (20 percent).
- *Solid citizens:* Those employees who meet expectations (75 percent).
- *Misfits:* Those employees who are below expectations (2 percent). Employees are placed in this category when they are either weak performers or lack the competencies for doing their job.

In this classification system superkeepers and keepers are the primary role models that shape the high-performance culture.

We have found that, regardless of the content of an organization’s creed, the talent strategies of most high-performing organizations contain the following three directives:

- Cultivate the superkeeper.
- Retain key position backups.
- Appropriately allocate training, rewards, education, assignments, and development (TREADs).

Cultivate the Superkeeper

This strategic directive involves the identification, selection, development, and retention of superkeepers. Their loss or absence severely inhibits organization growth because of their disproportionately powerful impact on current and future organization performance. Bill Gates once said, “Take our 20 best people away from us and I can tell you that Microsoft would be an unimportant company.”

Retain Key Position Backups

The second directive involves the identification and development of high-quality replacements for a limited number of positions designated as key to current and future organization success. The gaps in replacement activity for incumbents in key positions are highly disruptive, costly, and distracting to an organization. To achieve organizational excellence, key positions should be staffed by employees, and have replacements who have, historically exceeded organization performance expectations, show a commitment to develop others, and are role models for the organization’s creed. These employees are the superkeepers and keepers.

One of the most important talent management decisions the organization will make is the designation of key positions. In our experience, every organization likes to think of all its positions as key. We estimate that, when honestly considered, no more than 20 percent of an organization’s jobs should be designated as key.

There are a number of useful criteria for determining whether a position is *key*. Following is a short list of some of them:

- *Immediacy:* The short-term loss of the incumbent would seriously affect profit, revenue growth, operations, work processes, products, services, employee morale, stakeholder satisfaction, competitive advantage, or the prestige of the organization.
- *Uniqueness:* The position requires a competency or set of competencies that is, or will be, unique to the organization or its industry.
- *Demand:* The job market for incumbents holding the position is tight now or will be tight in the future.
- *Strategic impact:* The loss of a qualified incumbent for even a modest amount of time would affect the future success of the organization.
- *Basic:* The organization could not survive without the incumbent.

Allocate TREADs Appropriately

TREADs refer to investments made by an organization today in the form of training, rewards, education, assignments, and development activities. The return on most of these investments, however, will not be realized until the future. To properly invest its TREADs, an organization uses the classification of employees based on his or her actual or potential for adding value to the organization. Table 1.1 provides a strategic perspective on TREADs allocation by employee classification.

	Compensation	Training/Development	Career Paths	Visibility
Superkeeper	Accelerate much faster than pay markets	Major investments	Very rapid	Very high recognition
Keeper	Accelerate faster than pay markets	Substantial investments	Rapid	High recognition
Solid citizen	Accelerate moderately until competitive level is reached	Investments only to enhance competencies for current/ future business situations	Moderate to none	Recognition
Misfit	No increase	Only to improve fit now or for next job if there is a reasonable probability of success	None	

Table 1.1 TREADs Allocation by Employee Classification

Building Blocks

Once an organization formally commits to building a high-performance workforce, it will need to translate its talent creed and strategy into assessment tools that classify its people into one of these four categories: Superkeeper, Keeper, Solid Citizen and Misfit.

Our research, conducted since the second edition of *The Talent Management Handbook* was published, continues to show that the infrastructure of human resources programs and systems of most organizations remains an incoherent mosaic of unconnected, incomplete, missing, and inconsistent talent management strategies, assessment tools, and programs. This means that performance appraisals, assessments of potential, competency evaluations, career planning, and human resources planning (the core elements of talent management) are not integrated and are largely irreconcilable. Additionally, the return on the cost of implementing these elements as separate and distinct is low, the time expenditure is high, credibility is low, and employee dissatisfaction is pervasive.

Successful organizations use a talent management approach that links the three assessment tools, or building blocks, listed below. The assessments serve as the basis for making investment decisions consistent with classification of talent defined in the strategy outlined above.

Competency Assessment

Competencies are one of the building blocks in a talent management model. They are any behavior, skill, knowledge, or other type of stated expectation that is crucial to the success of each employee and to the success of the entire organization. Competencies used for employee assessment must always include the organization's creed.

Laci Loew in Chapter 6 identifies four types of competencies. They are:

- Organizational competencies (also called core or core value competencies) are identified during the strategic planning process and usually stay fairly static. These competencies should be closely tied to the creed.
- Functional competencies cascade from core competencies and describe specific skills and standards of performance needed by an individual working in a particular industry and are associated with specific work functions or business units.
- Job competencies (also called occupational competencies) cascade from core and functional competencies and are anchored directly to the specific behaviors, skills, and knowledge required for exceptional performance in a specific job.
- Leadership competencies describe the factors that lead to success for all supervisors, managers and leaders, senior staff, executives, and others who occupy management and leadership roles. They define what a strong leader "looks" like in line with the organization's culture and are used to guide the development of organizational leadership development programs and evaluate managers' and leaders' readiness to take on leadership roles.

Our research has determined that most organizations typically use up to 10 competencies in their talent management process.

Table 1.2 illustrates a list of 10 representative core competencies and their definitions. The list has undergone little change since the second edition of this book.

Core Competency	Attributes
Action orientation	Targets and achieves results, overcomes obstacles, accepts responsibility, establishes standards and responsibilities, creates a results-oriented environment, and follows through on actions.
Communications	Communicates well, both orally and in writing. Effectively conveys and shares information and ideas with others. Listens carefully and understands various viewpoints. Presents ideas clearly and concisely and understands relevant detail in presented information.
Creativity/innovation	Generates novel ideas and develops or improves existing and new systems that challenge the status quo, takes risks, and encourages innovation.
Critical judgment	Possesses the ability to define issues and focus on achieving workable solutions. Consistently does the right thing by performing with reliability.
Customer orientation	Listens to customers, builds customer confidence, increases customer satisfaction, ensures that commitments are met, sets appropriate customer expectations, and responds to customer needs.
Emotional intelligence	Possesses the capability for recognizing, regulating, and constructively handling one's own emotions and the emotions of others.
Interpersonal skill	Effectively and productively engages with others and establishes trust, credibility, and confidence with others.
Leadership	Motivates, empowers, inspires, collaborates with, and encourages others. Develops a culture in which employees feel ownership in what they do and continually improve the business. Builds consensus when appropriate. Focuses team members on common goals.
Teamwork	Knows when and how to attract, develop, reward, and utilize teams to optimize results. Acts to build trust, inspire enthusiasm, encourage others, and help resolve conflicts and develop consensus in creating high-performance teams.
Technical/functional expertise	Demonstrates strong technical/functional proficiencies and knowledge in areas of expertise. Shows knowledge of company business and proficiency in the strategic and financial processes, including profit and loss (P&L) planning processes and their implications for the company.

Table 1.2 Representative Core Competencies

Employees who demonstrate strength in these competencies are the role models for the high-performance culture and need to be positioned in key roles.

Performance Appraisal

A *performance appraisal* is a measurement of actual results achieved within those areas for which the employee is held accountable and/or the competencies deemed critical to job and organization success. There are only a relatively small number of ways organizations measure employee performance. Dick Grote, Chapter 8, describes a cogent view of performance appraisal. His model envisions performance appraisals consisting of organization competencies, job family competencies, key job responsibilities, and goals and major projects.

Martin Wolf, Chapter 9, in the second edition of this handbook classifies performance appraisal systems as being based on one or more of the following:

- *Trait based*: Assumes that certain traits drive performance; measures personal characteristics of the position incumbent.
- *Behavior based*: Assumes that certain behaviors drive performance.
- *Knowledge/skill based*: Assumes that certain knowledge/skills drive performance; measures what the position incumbent knows/applies.
- *Results based*: Assumes that achievement of objectives equals performance; measures what the position incumbent achieves.

Further coverage of performance appraisal approaches can be found in Chapters 7 through 10.

Potential Forecast. A *potential forecast* is a prediction of how many levels (organization/job) an employee can progress within an organization based on his or her past or current performance appraisals, training and development needs, career preferences, and actual and projected competency levels and positions that represent realistic future job opportunities. Like any forecast, an individual's potential is subject to periodic evaluation. It is heavily influenced by the quality of the input provided by different assessors and by a variety of situational factors associated with job conditions at different times. Potential forecasts are dynamic and could change with the nature of assessments and assessors over time.

Murray Dalziel, Chapter 11, feels that collectively three critical attributes can be used to assess potential no matter what assessment process or rating system is used:

- *Change lens*: The change lens looks at employees from the viewpoint of how they set an agenda for change. The key issue for evaluating potential is whether the person sees himself or herself as a change agent. We can adjust this lens to look at some subdimensions. Where do they see the source of change? Are they incremental, or do they look at a more radical view of what has to be changed? Is it in an area that exceeds standards? Does it set a new standard? An alternative driver that some people use is to turn thinking around and see the world in fresh ways. This is more than great analytic ability, although the more complex the change that is envisaged the more analytic abilities will be needed. The emphasis should be on looking at how the person brings disconnected points into a new focus.
- *Conviction lens*: With the conviction lens the focus is on how the employees convinces others of their convictions. In a changing environment, taking others with you as a leader has to start with a strong platform. Strong beliefs provide a source of clarity. That clarity of direction enables leaders at all levels to communicate. Therefore, to focus this particular lens, we ask, "What is their ability to communicate their conviction?" In addition, we need to ask, "Do people find his or her conviction credible?" Leaders are never disconnected from their followers. The leadership task is often to shape or reshape the views of followers. Are leaders able to understand others? Can they shape positions so that people will follow them and trust that they represent them? So this is broader and more inclusive than persuading people on a particular issue or being able to make compelling presentations.
- *Commitment lens*: In the commitment lens we look at whether there is evidence that leaders have the capability to commit, often referred to as follow-through. The follow through shows the ability to translate change agendas and convictions into action. The recognition by others that this is what they do is a positive indicator that others will follow.

Measurement Scales for Performance and Potential

Our large-scale study of organizations involved in some type of successful talent management process showed that the vast majority uses a simple five-point scale to measure performance and potential. Table 1.3 describes these scales. It also includes a scale for replacement status.

Performance	Potential	Replacement Status
A performance appraisal is a *measurement* of actual results achieved within those areas for which the employee is held accountable. These areas are jointly defined by each supervisor and subordinate. In appraising performance, supervisors are urged to evaluate results/accomplishments in terms of mutual expectations. The definitions below should be assigned based on a summary of employee achievements.	A potential appraisal is a *prediction* of how well an employee will do in future positions. This prediction can be made only by projecting past/present data on performance appraisals, training and development needs, individual career preferences, and competencies into future job prospects. Based on this projection a classification should be applied based on the evaluation system below.	Replacement status defines the extent to which the *replacement* for an incumbent is prepared to assume the incumbent's position. Career preferences must be taken into account.
Outstanding: Accomplishes much more than the position asks for, actually expands the scope of job. You, as manager, are pressed to keep up with all his/her activities. Can be identified with several specific major accomplishments. Makes significant contribution to divisional goals.	**Unlimited:** Can move at least three levels beyond present position either within present unit or in some other unit. Could attain a position in top management.	**Now:** Can do the job now.
Exceeds Expectations: Exceeds the basic requirements of the job description and can be identified with specific outstanding accomplishments. Develops means to make his or her area of responsibility a better contributor to the unit's goals.	**Promotable:** Can move one or two levels beyond present position either within present unit or in some other unit.	**1 Year:** Has most qualifications, but will require a limited amount of additional experience before assuming position. Can assume position within 1 year.
Meets Expectations: Accomplishes all that is required in the job description, i.e., doing the job he or she hired to do. Works according to plan.	**Lateral or Rotational Movers:** Can handle positions of comparable responsibility, as well as special projects or expansion of present job. Can move laterally.	**1+ Year:** Generally needs additional experience and/or training. More than one year away from move
Below Expectations: Not meeting basic requirements of the job.	**Marginal:** Unclear at this level whether lateral or no potential is proper rating.	**Holding:** Can do job strictly as a holding action, but does not have the capability or experience to perform now other than as a temporary stand-in.
Terminate: Situation requires immediate review and action. Well below expectations.	**No Potential:** Cannot expand present job upwards or laterally.	Not applicable.
Not Known: New to job, cannot evaluate now. Should not remain without rating for more than six months.	**Not Known:** This should not be used in describing potential since it is assumed that some type of basic career forecast can be made even in the case of a new hire or in the case of a new job.	Not applicable.

Table 1.3 Talent Management General Definitions

Multirater Assessments

The best talent management programs utilize input from different raters on an ongoing basis. Critical assessments come from the "vertical and horizontal organization," since most decisions on succession planning, career planning, and job assignments require the approval and ownership of progressively higher levels of management as well as different functions. Performance appraisals usually are confirmed by approvals from two organization levels. This multirater approach should be utilized in other types of assessment and extended to more assessors. The addition of multiple assessors and assessment tools necessitates a reconciliation process to ensure a consistent and mutually agreeable basis upon which TREADs investments can be made.

Final assessment and decisions regarding upward mobility or job reassignment must minimally include input from the following:

- *Employee*: Employees are co-owners of their own appraisals. Appraisals are the basis of coaching, training, education, career planning, compensation, and succession planning and development decisions. Reconciliation of an employee's appraisals (competencies, performance, potential, succession, and career planning) with that of other stakeholders is en essential part of improvement, preparation, and engagement. Three types of appraisers listed below will help make all types of appraisal more meaningful.
- *Boss*: The primary assessor who, in most cases, is most familiar with the employee.
- *Boss's boss*: The key link in the vertical succession and career plan.
- *Boss's peer group*: Source of potential new assignments in the same or other functions.

System

Once an organization has established its own unique set of talent management building blocks it must then deploy an integrative system to implement its talent management strategy. A talent management system consists of two components:

- Four core human resources programs.
- A process for integrating the four core programs into a unified plan for implementing a talent management strategy.

Four Core Programs

The four core programs discussed below incorporate the three building blocks (competency assessment, performance appraisal, and potential forecast). These programs become the vehicles that implement the talent management strategy which is necessary to build a high-performance workforce.

- *Positioning:* Programs that manage all internal employee mobility actions. It includes replacement planning, career planning, and all internal assignments.
- *Enhancement:* Programs that utilize employee building block assessments to facilitate employee coaching, training, education, and development actions.
- *Mobility:* Programs originating from the positioning plan. They involve the identification, attraction, recruitment, and on-boarding of new employees who meet the requirements of the talent strategy.
- *Compensation:* Programs that cover all pay actions necessary to attract, retain, incentivize, and reward people based on their classification within the stated talent management strategy.

The Integrating Process

In order for a talent management system to work effectively, the four core programs must be integrated into a unified plan for implementing a talent management strategy. The integrated plan is the last component of the talent management approach necessary for building a high-performance workforce. It enables us to define and implement specific actions that address significant issues tied directly to the talent management blueprint and strategy including:

1. Does the organization have its targeted percentage of superkeepers (2 percent) and keepers (20 percent)?
2. Are employee performance appraisal ratings consistent with objective methods for determining organizational performance?

3. Do the ratings on the value-oriented competencies match the results of surveys that measure the strength of the organization's creed, employer brand, and engagement level?
4. Does the organization have at least one backup for each key position who is at keeper (exceeds job expectations) level or above?
5. Is the organization addressing the issue of surpluses (positions with more than one replacement for an incumbent)? While ostensibly a positive result of the talent management process, it can be a potential source of turnover and morale problems if a nonpromotable incumbent blocks replacements and/or there is no realistic way most of the promotable replacements can advance.
6. Is the organization addressing the issue of voids (positions without a qualified backup)? Once voids are identified and confirmed, the organization must be prepared to recruit externally.
7. What is the plan for dealing with nonpromotable incumbents standing in the path of one or more high-potential or promotable employees (blockages)? Blockages are potential contributors to turnover in strategic talent groups.
8. What is the plan for dealing with problem employees? Those not meeting job expectations (measured achievement or competency proficiency). Should they be given the opportunity to improve, receive remedial action, or be terminated?
9. Are TREADs (training, rewards, education, assignments, and development) being allocated based on employee classification superkeepers, keepers, key position backups, and solid citizens?
10. Is the overall bench strength sufficient to meet organization needs?

Integrative Approach

Table 1.4 is a bench strength summary. It is an example of an integrative approach that centers on positioning and related actions that can be taken to address talent management issues. It merges:

<table>
<tr><th>Position</th><th>Potential</th><th>Performance</th><th>Next Position</th><th>Status</th><th>Replacement(s)</th><th>Status</th></tr>
<tr><td>Bednarik, Charlene
Executive VP (Female)
Keeper</td><td>P</td><td>EE</td><td>President and CEO</td><td>Now</td><td>Logan, Bill</td><td>12-24 Mos.</td></tr>
<tr><td>Mantle, Morris
Executive VP
Superkeeper</td><td>U</td><td>OUT</td><td>VP and CFO</td><td>Now</td><td>LeClerc, Juan</td><td>12-24 Mos.</td></tr>
<tr><td>Maris, David
VP and CFO
Key Position</td><td>NP</td><td>ME</td><td></td><td></td><td>Blocking
Mantle, M.
Jones, G.
Surplus</td><td>Now
Now</td></tr>
<tr><td>Williams, Otis
(Minority) VP, HR</td><td>P</td><td>EE</td><td>EVP Quality</td><td>Now</td><td>Martinez, P.
Gonzalez, P.
Surplus</td><td>Now
12-24 Mos.</td></tr>
<tr><td>Hingis, Martin
VP, VP-R&D)
Key Position</td><td>NP</td><td>BE (performance problem)</td><td></td><td></td><td>Void</td><td></td></tr>
<tr><td colspan="7">Potential: P (Promotable—1–2 levels); U (unlimited potential); LR (lateral rotational); NP (no potential).
Performance: Outstanding (greatly exceeds expectations); EE (exceeds expectations); ME (meets expectations); BE (below expectations).
The Bench Strength Summary captures the key elements for aligning people with organization needs. Five action items with recommendations are identified:
Void: Positions with no replacements. (1) Expand current talent pool. (2) Begin external recruitment process. (3) For key positions accelerate the process.
Surpluses: Positions with more than one replacement. (1) Redirect career paths. (2)Move high potentials quickly to other positions. (3)Job rotation inside unit. (4) Task force assignments.
Blocking: Nonpromotable managers with promotable subordinates. (1) Move incumbent or backup within one year. (2) Job rotation outside unit. (3) Special projects.
Performance Problems: Employees not meeting expectations. (1) One more accomplishment review. (2) Focus on results and competency improvement. (3)Terminate (consult HR department).
Superkeeper: Accelerated career path and compensation growth, high development investment; formalize coach, mentor and sponsor arrangement.</td></tr>
</table>

Table 1.4 Bench Strength Summary

- *Succession planning:* In the broadest sense, the process that seeks to identify replacement candidates for current incumbents, and potential future job openings, and to assess the time frames in which they can move to these positions.

- *Career planning*: This process identifies potential next steps in an employee's career and his or her readiness for movement to new positions. Career planning merges the organization's assessment of employee growth readiness (succession plan), employee's career preferences, and the likelihood that positions in a career path will become available.
- *Key position backup designation:* The insurance policies that ensure organization continuity. Every key position should have at least one backup at the keeper (exceed job expectations) level.
- *Potential turnover identification:* The organization needs to be aware of the potential for increased turnover resulting from surpluses and blockages. Surpluses are positions with more than one replacement for an incumbent. While ostensibly a positive result of the talent management process, it can be a potential source of turnover and morale problems if the replacements are blocked by a nonpromotable incumbent and/or there is no realistic way most of the replacements can advance. Blockages are nonpromotable incumbents standing in the path of one or more high-potential or promotable employees.
- *Opportunities for talent acquisition:* Voids are positions without a qualified backup. Once voids are identified, it is appropriate to initiate plans to recruit externally.
- *Upgrading or termination of problem employees:* Those not meeting job expectations (measured achievement or competency proficiency) should be given the opportunity to improve, receive remedial action, or be terminated.

Summary

In this chapter, we present a talent management approach based on the practices of successful organizations. These organizations systematically design, integrate, and proactively implement programs that build and sustain a high-performance workforce. These programs focus on acquiring, cultivating, positioning, and rewarding employees who can best achieve their goals while remaining true to stated values. When their approach to building a high-performing workforce is fully integrated and codified, it is labeled talent management. Although there are a variety of approaches to talent management, our recent experience and research indicate that the type of integrated and codified approach typically used by high-performing organizations consists of three iterative components: a blueprint, a set of building blocks, and a system that effectively integrates the human resource programs cited above.

Chapter 2

From Blueprint to Action: Signals and Guidance for Successful Talent Management Programs

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Introduction

The creation of a talent management plan is an exciting and challenging time. You've done your talent management homework well. You've crafted a terrific talent management blueprint for high performance, rooted in the organization's business strategies. Your talent creed is articulated and well translated into a smart talent strategy. Further, the strategy encompasses all the essential talent management building blocks. You are energized to finally put the plan into motion.

The up-front work of a quality talent management framework pays off. Yet there are instances where our plans fall short of expectations as we either moved too fast and skipped over a critical issue or moved too slow and didn't achieve the scale and impact that was possible.

With a finished talent management blueprint in hand, one final pause before implementation is advisable. Look at four important signals to determine if you're ready to spring into action and at what pace. The four signals are:

1. Are we clear on outcomes?
2. Are we ready?
3. Can we do it?
4. How should we do it?

The object of this chapter is to share what we have learned about the four signals and how they have helped guide us in our talent management work. We believe that these signals have informed us on the current realities of the organization and greatly impacted our effectiveness. As with traffic lights, these signals can guide you to one of three positions that describes your degree of readiness for implementing your talent management plan. See Table 2.1 to determine your organization's readiness to proceed.

Red: Stop for more advanced work before beginning	Yellow: Proceed cautiously and be prepared to adjust	Green: Full implementation; prepare to accelerate
You're potentially ignoring or skipping something important that will mean a high risk of failure or faulty implementation. The program proposed may lack real impact (kicking up lots of dust with little sustaining value), or irrelevant or low value to organization and talent. Effort may cause reputational damage to you and your efforts.	You can move to activation with caution, being mindful of traps that are real or threatening. Some aspects of plan need to be addressed / improved or something fuzzy or unknown needs to be defined. Current plan needs to be broken down and sequenced (not everything at once). Could also signal the need to address program resistors and build champions.	Fully meets strategy requirements with absence of red/yellow signals. When green, consider how to take full advantage of the optimal setting for your talent solution, often including how quickly you can get product into market—identifying the first steps including enablers, resourcing, pilot plans, etc. and so on.

Table 2.1 Talent Plans Implementation Signals

In the following sections, we have developed a series of high-level questions the answers to which should indicate what signals your organization may be sending and how to step back where needed or accelerate your efforts for impact. Our objective is to provide both quick checks and more comprehensive diagnostics and guidance where it may be helpful. The important thing is to choose what you need now versus dragging through all the details or superficially skipping something important. Also, this is a chapter to return to from time to time as something not relevant at the start may become relevant later.

Signal One: Are We Clear on Outcomes?

During the transition from high-level strategic blueprint to program development and activation, it is more important than ever to ensure that you, your team, and your critical stakeholders are clear on the specific planned outcomes. Buoyed by commitments like "build leaders faster," "drive global mindset," or "grow agile leaders," it can be tempting to pull out any and all training, programming, initiatives, and talent management systems that have been successful at an organization or at a specific time. Don't. Instead, push for alignment and clarity around the targeted and prioritized requirements for your organization's talent agenda. Further, ensure that you and your stakeholders can articulate how these elements of the talent agenda drive business outcomes that matter. Before proceeding with any programming, it's important to ask, "Does everyone know what success looks like for the business and for our talent? Are we clear on the trade-offs, roles, requirements, and challenges involved in achieving that success?"

In Table 2.2, we offer some guidance on reading clarity signals and advice on how to accelerate this important step in the process as you consider leadership development, succession planning, coaching, training, assessment, career planning, or performance management efforts. While not exhaustive, we hope that these considerations offer a quick diagnostic for the practitioner. This section may be particularly helpful as you weigh your organization's talent management strategies and explore any changes to your existing approach.

Clarity Signal: Stop	*Clarity* Signal: Caution	*Clarity* Signal: Accelerate
• Unable to articulate the unique and incremental purpose of a program or how it meets a specific business need. • Progress or impact measures have not yet been explored. Rather, this is simply offered as "best practice." • Surface-level agreement is in place, but line and HR leaders are imprecise in explaining how it will drive a business outcome.	• General support in place with key stakeholders; may appear that initial funding provisions, willingness to pilot in small part of the business to prove outcomes, are achievable. • Offering/program, while strong, isn't effectively integrated with existing options. Or worse, it may confuse stakeholders because it competes with programs in place. • Measurement for success has been articulated in terms of activity vs. impact.	• Leaders and key stakeholders are clear on and highly supportive of the desired outcomes of the effort and why this program is appropriate. • Executive sponsorship for the programs is strong. You have "spokespeople" or ambassadors across leadership and the broader HR function. • Clear metrics are agreed upon and in place to measure process success *and* impact. • There is recognition of the must-deliver pieces, while also alignment that as the work goes live, some parts may evolve. • Success metrics matter in a broader business context. • Those responsible for execution are clear on the desired outcome (what) and its importance (why).

Table 2.2 Clarity Signals

As you can see, the bar for "accelerate" is a high one. If you find you're not at the accelerate stage yet, we recommend a brief pause to establish necessary clarity. Table 2.3 shows a five-step process we find helpful. As a practitioner, you can use some or all of these steps to diagnose where you may have gaps in outcome clarity.

Start with the talent strategy (blueprint).	Play the skeptic and pull the program out.	Add back elements of the program one at a time.	Pressure test with leaders.	Build "so that" case.
Chances are your talent strategy articulates high-level metrics for success. Carefully consider which of these metrics your proposed program will impact and how they will drive business success.	For the diagnostic value, explore what would happen without the program. If you just didn't do it, what would be at risk? Note failure points or outcome gaps. They'll offer important insights.	If your program benefits aren't clear, complexity could be the culprit. After you've "eliminated" the program in your diagnosis, try adding back pieces of it. This will help you evaluate where you had excess elements.	Actively engage your leaders in dialogue. Ask, "How will the organization be different with this program in place?" "How will key talent be different?" "What business metrics will move if we do this well?"	After aligning with leaders, the next opportunity is to develop clear language and metrics for the "why." This should be plain-spoken, specific, and objective. It should address a targeted issue and, it should be well communicated.

Table 2.3 Five Steps to Clarity

Signal Two: Are We Ready?

The second signal explores organizational readiness. Often, changes in programs, initiatives, or talent systems are made by relatively small groups of leaders and HR professionals—yet they can have enterprise-wide impact. Therefore, it's vital to spend time early on to explore change management requirements and ensure that they are built into the overall work plan (more on that when we discuss Signal Three).

Effective change management and communication planning can hasten organizational readiness and proactively address possible failure points. It is easy to assume that you have sufficient commitment when senior leadership team members are committed, but most large-scale programs require several leaders at multiple levels in the organization to believe in the program's value and relevance. This work comprises classic elements of both change management and organizational development. While we don't offer a comprehensive approach, we would like to touch upon a few areas we find most crucial to understand.

1. *Sufficient and sustained leadership support:* Do you have the right level of support with needed leaders? And, most importantly, do you have *sustained support*? We posit that most companies have an organizational discard pile where initiatives without sustained support are quietly forgotten after the fanfare of the launch has passed. We also believe that in some cases, skeptics wait for this and see new programs as shifting fads that can be "waited out."
2. *Employee interests:* It's important to articulate the programs, as applicable, in ways that engage individual employees. That does not mean simply "selling" what's in it for them, although that is an important element. Instead, it also involves genuinely listening to concerns and addressing those transparently and respectfully.
3. *Learning from the past:* Where applicable, take time in your organizational readiness diagnosis to understand where similar programs have failed, faced resistance, or fallen short of their promise. Carefully explore what you learn and build those lessons into your planning.

Table 2.4 contains our quick signals to evaluate readiness. In addition to these, we strongly recommend a more comprehensive change management assessment.

Readiness Signal: Stop	*Readiness* Signal: Caution	*Readiness* Signal: Accelerate
• Unclear on prioritization against other critical organizational needs. • Leaders communicate support, but demonstrated commitment is varied. • Clear "not now" cues, despite merits of the program (this could be due to M&A activity, limited resourcing, etc.). • Questions or unaddressed items regarding cultural fit of the program.	• History of missteps in similar program launches that have not been addressed. • Leaders aligned on outcomes but have questions on the proposed program as the best way to meet organization's need. • Incomplete change management assessment.	• Leadership has provided full backing, including assignment of executive sponsorship, plans for ongoing visibility and involvement, and an interest in measurement of outcomes as an integrated business metric. • Employees are eager to learn more and are seeking resources to leverage the program. • Business unit leaders are seeking to "go first," where pilots may be a roll-out strategy. • Business unit leaders are willing to partner on the activation plan and even dedicate resources to speed implementation. • The execution team and necessary stakeholders are clear on the change management plan, having conducted an honest assessment of what's needed to launch and embed the program. • Clear cultural fit within your organization.

Table 2.4 Readiness Signals

Signal Three: Can We Do It?

Resource constraints, competing priorities, time pressures, global complexity, dynamic competitive landscapes, and changing talent requirements all pose significant challenges to the talent management professional. Centers of excellence are often smaller than they were in the past, and HR business partners' employee ratios continue to increase. Managers' roles are more complex, frequently with larger spans of control.

Signal three, "Can we do it?" explores organizational capacity. Do you have the required time, money, and staff to execute? While an obvious consideration, this is an incredibly important step. Making the assumption that you have sufficient capacity, only to find out you don't, puts program outcomes at risk—as well as your team's reputation. Similarly precarious, securing dollars and resources that are not critical to the program's success can add complexity and waste scarce resources. There are three questions a practitioner should ask to diagnose, "Can we do it?" With each, the more specific and clear you are early on, the faster you will travel as you head into the execution of the work.

1. *"What's the work?"* Develop detailed project plans that highlight work streams, time requirements, expenditures, specific skill requirements, and timing milestones. These are the activities and efforts required to achieve the desired outcomes discussed in signal one.
2. *"What work will go away or change?"* Consider which existing programs can be eliminated, scaled back, or simplified. Also explore where your staff's time should be realigned or current programs be repurposed.
3. *"What would additional resources provide?"* A risk during a program start-up is to allocate lots of capable people's time to work on it. The instinct to increase staffing is a common one, but it can be detrimental to the program's speed and cost effectiveness. Before you add resourcing, consult the work plan carefully, build clear role charters, and evaluate the best resourcing type (consultant, shifted internal resource, community of practice, etc.). With that clear understanding in mind, add resources judiciously and thoughtfully. For example, consider augmenting limited internal staff with the right external vendor or consultant for expertise as a trusted partner.

As we offer for the other activation signals, the Table 2.5 provides a handful of capacity considerations to enable managers to evaluate, "Can we do it?"

Capacity Signal: Stop	*Capacity* Signal: Caution/Slow Down	*Capacity* Signal: Ready, Go!
• Work plan isn't yet clear. • There is a broad sense that more resources are required, but without a specific plan in place. • Material gaps in current resourcing and clear requirements (dollars, staff, skills, time to execute). • Significant change is required, but change management has not been considered.	• Work plan is drafted at high level but needs to be vetted with stakeholders. • Resourcing requirements have been established, but not yet aligned with decision makers. • Skill, change management or other gaps in the current resource plan have been flagged, but are not yet resolved.	• Those accountable for execution are clear on their role in the program and its impact on their other priorities. • Leadership has specific understanding of any incremental resource needs and has agreed to provide (dollars, consulting partnership, etc.). • The execution team has the appropriate skills needed and/or there is a skill-build plan in place. • The scope and deliverables are clear to the execution team and key stakeholders. • The execution team members each understand their specific role and how to collaborate with other members of the team. • Where tradeoffs are necessary to resource the program, these have been shared with leadership and other key stakeholders. • A solid change management plan is in place.

Table 2.5 Capacity Signals

Signal Four: How Should We Do It?

As with choosing clothes, the smart selection of talent program or practice is a question of fit. By "fit" we mean the right choice needed to achieve the desired outcome given the realities of your business and talent requirements, resources, and readiness. The *Talent Management Handbook* emphasizes that a talent management strategy involves allocation choices centered on TREAD—*training, rewards, education, assignment, and development activities.* Each choice needs to be objectively considered for best fit. Many talent initiatives flounder because the talent leader ignored the question of fit and succumbed to the fancy of fads and fashion. In other words, the choice of activating a new training program or compensation scheme was driven more by the latest "best practice" talent trend and less on what works best for the organization.

Further, we've met more than a few fellow talent practitioners who tend to emphasize a narrow set of programs and practices, time and time again, regardless of different circumstances. We humbly submit that senior HR leaders tend to be more comfortable with programs familiar to their career HR experiences, such as the former staffing and recruitment leader who now consistently passes over internal employees in favor of external hires, or the learning executive who turns to training as a first response to solve talent challenges.

So, begin the "best fit" question by reflecting on your professional strengths, preferences, and potential "blind spots." Then consider the inherit advantages and disadvantages of each TREAD choice and how it meets the requirements coming from your talent management strategy and system requirements. For example, look at some of the common considerations associated with two common TREAD choices, assignments versus training and development:

- *Assignments:* Recognized as the most powerful way to develop competencies, a key development action is to provide pivotal experiences, assess and build capability, and ensure strong engagement. However, organizations have a limited number of highly developmental assignments and need to judiciously orchestrate movement while balancing the need for current organization performance with the disruption of high-performing talent movement. Sometimes the best roles need to be freed up by moving "solid citizen performers" with little upside potential. Relocation to a new assignment often involves high cost as well as employee resistance to transfer geographies.
- *Training and education:* With an ever-expanding set of choices driven by technology and the "do-it-yourself" ethic of the new workforce, training and education choices are popular levers. Cost, speed to implement, and real impact will vary, and it is important to be honest about the expected outcomes of any training program with the investment given. For example, we rolled out a high-touch, leaders-teaching-leaders program with great initial impact and success. Unfortunately, the time to scale and geography to cover made it very hard to translate that early success into longer-term, enterprise impact. Also, while progress is encouraging, much of the online, digital learning methods to excel at scale, speed, and low cost at times meant a trade-off for true learner engagement and sustainable competency building. Signals to stop, slow down or continue are described in Table 2.6.

***Best Fit* Signal:** **Stop**	***Best Fit* Signal:** **Caution/Slow Down**	***Best Fit* Signal:** **Ready, Go!**
• Unclear description of requirements needed to choose TREAD option in delivering strategy. • Very few or too many TREAD choices are incorporated into the talent strategy and system, risking under-delivering, sub-optimizing or confusing implementation. • Implementation choices are made based on the latest trendy talent solutions (or overly promoted by an internal sponsor) and NOT aligned with internal requirements. • Implementation choices are biased by practitioner comfort and preference and NOT aligned with the current strategic needs.	• Some clear and some unclear description of requirements needed to choose TREAD option in delivering strategy. • Some aspects of the talent strategy and systems are lacking in effective choices and need additional consideration. • Some implementation choices take too little or too much risk based on talent practitioner bias or overly influential stakeholder/sponsor.	• All elements of the talent management strategy and systems have been identified with well considered TREAD choices. • "Best Fit" choices have a track record of past success, align well with green signals 1, 2, 3. • Programs and practices chosen provide the appropriate "reach" to the needed employee groups and can provide impact in a timely fashion. • Early success in program and practice implementation builds confidence in accelerating effort and widening target audience.

Table 2.6 Best Fit Signals

Activation: Sequence and Scale

After carefully working through the signals provided, you are likely now ready to move. In some cases, the design signals mentioned provided cautionary guidance and encouragement to pause. As you approach activation, with your careful planning work complete, it is important now to ask yourself: "how fast?" and "how far?" Selecting the wrong pace, casting too narrow or too wide a net, or missing key building blocks pose risks to your program's effectiveness. Therefore, your key activation considerations include sequencing and scaling.

The reality is that in most cases, a talent management professional isn't working on any one program in a vacuum. For example, a new coaching program has implications for leadership development broadly and also may impact the organization's approach to assessment of potential, succession planning, and performance management, among others. Therefore, as you consider a new program and its rollout, take time to determine the right sequencing in your talent management systems. There are several sequencing implications to consider:

- *Maturity:* Some talent management programs require a strong foundation of the basics. For example, before building a program that holds managers accountable to accurately assess potential, it is critical for managers to have the awareness and competence needed to do so. This may mean that your ultimate program objectives need to be built into a multipart plan that first addresses the foundational requirements.
- *Interdependencies:* Most situations are not start-ups and as program changes or introductions are made in one area of your talent management practice, they impact other programs. For example, changes in your performance management approach might impact how you train managers to provide feedback. Changes in experience maps for functional competencies can change hiring profiles and recruitment processes needs.
- *Timing:* Wherever possible, thoughtfully integrate your programs into the organization's business process calendar. For example, a newly designed talent review process may be most effective if it occurs after the business strategy discussions and before budgeting.

In large organizations, particularly those that are global, the question of program scaling is an important one. If an early program, targeted at a more specific part of the organization (e.g., high potential development programs, coaching for transitioning leaders, etc.) is successful, you may feel a pull to accelerate the scale of that program quickly. A few key considerations are important:

- *Purpose:* Here again the clarity of intent is critical. As you scale, consider the initial intended outcome of the program. Ensure that scaling advances this purpose.
- *Standards:* As you scale, the legitimate need for some level of customization or adaptation typically comes up. It is crucial then to establish where the program adheres to an enterprise-wide standard and where modifying is permitted. Declaration of, and alignment around, these standards will help to flexibly scale across the company while maintaining the quality of the program.
- *Support requirements:* As you scale, the work required to support the program also changes. It is likely no longer feasible to rely solely on the "hub and spoke" delivery model. Instead, viably scaling your program should include considerations around building organization champions or "power users" and communities of practice. We recall the effective use of disseminating highly trained Six Sigma master black belt leaders from a centralized group to division and field locations. Each Six Sigma leader then provided programs and projects that both held the intended standard from the center and also aligned with local needs and relevance.

A Final Word on Signals and Learning Loops

As stated in the introduction to this chapter, we firmly believe that moving from a strategic talent blueprint to activated programs requires a pause to consider the signals. Of course, moving from planning to action is an ongoing affair, and we would encourage signal reading throughout the talent management program cycle. In our work, we have often started well and had to adjust during the implementation phase to achieve sustained success. In other words, reading the signals at the onset is important and keeping one eye on the signals as you drive your programs and processes over time is equally valuable. With that in mind, our final encouragement is to not only pause at the beginning, but also to integrate ways of reading the signals in more of a classic learning loop approach:

1. Plan
2. Implement
3. Evaluate
4. Adjust

Steps three and four of this approach ask, "*What results are we seeing, and how are these results driving the business?" "What are we learning?" and "How do we adjust and apply this learning?"*

Conclusion

The excitement of completing a great talent management blueprint aligned with the needs of your business must be cautioned by the dangers of missing or misreading four important signals prior to implementation. The pause and diagnosis we encourage is intended to provide guidance on clarity of outcome, organizational readiness, organizational capacity, and "best fit" choices. We encourage you to take a pause and consider the five questions of the Signals and Guidance Application Worksheet provided in Table 2.7 to capture your current thinking and reaction from this chapter.

1. As I begin, what are the 2-3 most critical signals I need to pay attention to?	2. Where should I move fast, and how—right now?
3. Where should I slow down and what needs to be addressed before implementation?	4. What are the most critical executional considerations?
5. What is my learn and adjust plan?	

Table 2.7 Signals and Guidance Application Worksheet

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Chapter 3

Creating an Employer Brand That Attracts, Grows, and Retains the Right People

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Your brand is what other people say about you when you're not in the room.

Jeff Bezos, Founder and CEO, Amazon[1]

THINK ABOUT THESE WORKPLACE QUOTES EXPRESSED BY PEOPLE JUST LIKE YOUR potential hires and employees:

- "Most of my friends think Starbucks is a cool place to work."
- "Everyone is accountable at WD-40."
- "I came to Ritz-Carlton because they have a top-notch reputation for service and growth."
- "I stay at McDonald's because I work with a really great team."
- "At Southwest, beyond safety, we don't take ourselves too seriously."
- "The interesting thing for me was [Patagonia] really lives up to the hype … cleaner on the inside than it even talks about on the outside."[2]
- "The culture at [Facebook] is second to none and fosters an atmosphere that encourages collaboration and leadership at all levels."[3]
- "Adobe offers great work-life balance."[4]

These quotes and many others are the way potential and current employees think about working at an organization. And today, sites such as Glassdoor, Facebook, LinkedIn, and Twitter among others provide many reasons why someone would or would not want to work for an organization.

Organizations have personas that are translated into a brand that the labor market understands and reacts to. And, as in product or service branding, the brand conveys both a rational and an emotional appeal. Starbucks' "cool" is more about the emotional side, whereas the Ritz-Carlton service reputation reflects a rational connection to its mission.

Part I: The Potential and Challenges of Employer Branding

The concept of employer branding has been around for decades under various guises but has taken off since the great recession, as low unemployment and an expanding economy are creating talent shortages in particular locations, jobs, or industries. But even before and during the recession, smart firms were taking advantage of a compelling brand to attract the right talent to their organization.

Surveys by Universum of more than 2,000 senior executives, including CEOs, reveal that in 2014, 36 percent of global employers reported talent shortages, the highest percentage since 2007. In a more recent survey, 73 percent of CEOs reported being concerned about the availability of key skills. Further, when Mosely and his team asked respondents about future goals for employer branding, 40 percent said they wanted their brand to help secure long-term hiring needs, and 31 percent said their brand would become more important in the future for building a reputation.[5]

And if better branding allows firms to bring in better talent, is there a payoff? According to Gallup, "When companies select the top twenty percent most talented candidates for a role, they frequently realize a ten percent increase in productivity, a twenty percent increase in sales, a thirty percent increase in profitability, a ten percent decrease in turnover and a twenty-five percent decrease in unscheduled absences."[6]

Further, by bringing talented people into the organization and engaging them at all levels, Gallup has found that compared to other business units the most highly engaged business units are 21 percent more productive, experience 48 percent fewer safety incidents, are 22 percent more profitable, have 10 percent better customer ratings, and experience 37 percent less absenteeism.[7] So it's clear that simply attracting them is not enough; smart companies need to create engaging employee experiences.

The Metrus Group found similar results. For example, at Jack in the Box, winner of the 2016 HRM Impact Award,[8] restaurants with employees who are aligned with the brand priorities, engaged, and capable of delivering the brand promise produce 30 percent higher profit and far more satisfied guests (customers). Further, in my work at the Metrus Institute, we have found that you can increase alignment and engagement by the manner in which the talent brand is designed and embedded into the culture.

Employer Brand and Talent Value Proposition

If you were had searched for the terms employer (or employee) or talent value proposition (EVP or TVP) on a web engine 15 years ago, you would have found fewer than 50 references to the term; today, there are over 2.4 million and growing rapidly. I prefer the term talent value proposition (TVP) because much of our talent today comes from *contributors* beyond traditional employees—independent or outsourced workers such as contractors, part-timers, or seasonal workers. For example, when a contractor for my local cable company showed up to fix a problem, he did nothing but badmouth the cable company. He hated working with it for more reasons than I have space for, but the image of the brand he conveyed to me lasted a long time.

For purposes of this chapter, I use the term *employer brand* to refer to the broadest reputation an organization has as an employer and *talent value proposition (TVP)* as a working description of the expected exchange between an employer and its contributors—the primary attributes that will distinguish the employer for both potential hires and current contributors. That is, what does the contributor expect from the organization (for example, great benefits, creative environment, and autonomous work environment) and what, in turn, does the employer expect from the contributor (for example, creative ideas, adherence to values, long but flexible hours).

For years IBM has had a reputation for hiring smart, polished, long-tenured talent. While this is a great brand image, prospective hires and employees want to know the primary distinguishing attributes of working there, which might include innovating experiences, high performance expectations (and associated rewards), or strong mentoring for personal growth.

An employer brand usually consists of five to seven core distinguishing attributes that answer the question: Why do you deserve to attract and retain talent? Typically an organization such as IBM, Amazon, or Google has one overarching employer brand, but different business units, divisions, or functions can have different TVPs, as long as the role-specific TVPs are not misaligned with the overall brand promise.

While employers are increasingly recognizing that their employer brand is a powerful tool to attract, grow, and retain talent, branding is risky if it is not done well. For too many, employer branding is simply a marketing gimmick, aimed at getting those with the right credentials in the door. Companies that participate in "best or top company" surveys or competitions solely for the purpose of selling prospective talent on the value of their workplace and not actually improving the culture and workplace experience usually fail to keep good talent in the long run. Good branding requires strategic positioning, key stakeholder involvement, and perseverance to embed the brand into the culture.

Like many things in organizational life, finding the "right" talent begins with a good strategy. And by strategy, I don't mean a good tactical plan like the term has so often come to mean. A good strategy should tell us about unique competitive advantages that enable your organization to grow successfully, and the accompanying culture, talent, and other requirements needed to deliver on that strategy. A good employment strategy must be aligned with the broader organization and product strategies. For example, Qualcomm's strategy and brand rely on innovation, and so it must create a culture that enables creative people to thrive. When done well, the culture will be a competitive advantage that cannot be easily copied.

In creating the TVP, it is important to distinguish the current state from the aspiration. In working with organizations to build their TVPs, I frequently join teams that have not made this important distinction. For example an Asian Pacific bank had identified a fabulous list of employer brand attributes such as "highly flexible work environment, great job security, superb benefits, pay that rewards good performers, family friendly culture, open communication, and great teamwork." I was a bit skeptical since I had observed this organization before, and these descriptions didn't match my earlier observations. I decided to press them for more facts to support those contentions, and the bubble burst. In fact, they did not yet have family friendly leave or flexible time policies, bonuses were limited to 6 percent (while the average was 3–4 percent), they had a layoff eight months earlier, and managers were rigid in work rule enforcement.

What the bank had done was describe its *desired* (maybe even utopian) state. It had optimistic managers who wanted to see this environment emerge, but if not couched in a change framework, credibility was at risk. The strategy focused on financial leverage and deals, where tellers and loan officers were looked upon more for efficiency and accuracy than customer service, and measurement systems chalked up speed and productivity numbers rather than employee development or any of the attributes described in the vision.

I carefully brought the group back from utopia to reality with several fundamental strategic questions that would help us identify the true "musts" in the employer brand that would then require a targeted change effort:

- What did the business need to be successful in the future?
- What people requirements would make or break that strategy?
- What types of jobs were the most critical to success?
- What type of people did the bank need to attract?
- What aspects of the culture were attracting and retaining core talent?

These questions touched off fruitful discussions that allowed group members to identify critical human capital factors that would be aligned with the overall business strategy—not ones that could fit any utopian environment. For example, a clear pain point was talent retention, causing executive frustration with the ability to find the "right" talent quickly when needed. This organization was operating in a very low unemployment environment, and many types of talent were in short supply. Even tellers could walk across the street to the bank's number one competitor at a moment's notice. Good traders were almost impossible to find, and marketing and risk officers took months to replace.

We began with the choke points. The organization had launched a major customer service campaign —"We are the bank for personal relationships"—that required stability of customer-facing positions such as tellers and loan officers. Furthermore, other positions—billing, collections, and credit—required frequent contact with customers to deliver superlative service. The bank risked not fulfilling customer expectations with a major organizational branding campaign that could backfire if the "right people" were not in place. So a key implication for the TVP was finding people who were likely to stay and who enjoyed service. Offering benefits tied to tenure made more sense for them, and increasing work-hour flexibility enabled more employees to balance family or education needs with work at the bank.

It is this kind of analysis and understanding that should be the foundation for building a good employer brand strategy—one that not only addresses corporate reputation and product image, but also one that spotlights the organization as a place to work.

Brand as a Talent Magnet

Other things being equal, the greater the awareness of your organization, the more candidates you will have exploring your firm as a potential employer. Look at Google that has received huge press coverage for its progressive employee policies. Several years ago, Google was receiving some 10,000 résumés a day—yes, a day! Not that you want 10,000 résumés a day—another challenge—but it certainly allows Google to be selective in whom it hires. Awareness creates choice.

Strong employer branding essentially puts control of the number and type of job candidates into the hands of the employer. Google is in the driver's seat in deciding whom it will hire because the brand is so strong. It doesn't matter if Google needs to hire 100 or 1,000—it has ample choice.

Targeted Branding: Focusing the Talent Magnet

The challenge that Google faces, however, is screening thousands of applicants, many of whom will not fit the Google culture or the competencies needed. One downside of creating a famous brand is that it may increase the costs of hiring those who are the *best* matches. We all have experienced the incredible disruption of a bad hire on morale, teamwork, customer satisfaction, quality, and performance. Knowing the enormous consequences to both the individual and the organization of a bad short-term fit, it behooves both parties to test fit beforehand as much as possible.

How can an organization limit the number of inappropriate candidates—attracting those who will most likely fit the organization and discouraging those who will not? Many great tools are available today to reach, screen, and select the right talent. Options such as LinkedIn, Facebook, and Twitter provide information on potential candidates enabling review of career histories and some assessment of *competency* matches.[9] Companies such as SmashFly are bringing technology to bear to increase awareness, integrate information from many sources such as LinkedIn, Twitter, or Facebook, and accelerate the matching process.

And while various tools can help accelerate the match of brand and employee interests and competencies, it is also important to assess likely fit with the culture. Do potential hires have the potential to be *aligned* with and *engaged* in the culture? Because of the detailed amount of information now available to employers, there are increasing ethical and legal risks of reaching beyond work-relevant information that could be viewed as discriminatory or biased.

One way to address the issue of assessing fit is using realistic job previews. Realistic job previews have long been understood in organizational psychology as an effective technique for candidate self-screening and are being used in an increasing number of firms. Some firms are using simulations to do this in a more automated fashion, while others focus on honest cultural sharing.

Another approach is straightforward, effective communication. Henry Givray, the chairman and former CEO of SmithBucklin, says, "We have benefited by being transparent about who we are as a company, the difference we are making every day for our client organizations, and what our employees can expect to gain from working at SmithBucklin. As a result, we have both increased our retention rates and been more efficient in identifying high-quality candidates who find our company to be an energizing, rewarding workplace. We also recognize and, more importantly, embrace that our company isn't for everyone." Tamar Elkeles, former vice president at a California technology firm, says "that rather than promoting how innovative it is and attracting every bright engineer, it goes out of its way to signal that smart engineers who want a stable, structured environment would probably be unhappy there." Ritz-Carlton, the upscale hotelier, actively discouraged employees who do not like serving others. "We are ladies and gentlemen serving ladies and gentlemen," as conveyed in the corporate motto.

Another approach is employing tours of duty.[10] While beyond the scope of this chapter, our research and that of others suggests that a large number of employees are attracted to tours of duty—a trial or development time period, often over many months or several years—after which the employee or employer can opt in or out.

Maintaining the Magnet

Even if you find the "right" talent, can you keep it?

The problem of keeping the magnet activated has a lot to do with what your new talent sees when it comes through the door. Will they see the same organization they saw in the brochures, webpage, or articles? Will the culture sing a similar tune to that of the recruiters or those with whom they interviewed? Keeping an electromagnet charged requires constant application of energy, or the magnetic property is lost. So too, it is necessary to pay ongoing attention to your brand: alignment of the espoused and real organization is paramount. Even if communications messaging is consistent, if the brand image does not accurately represent how the boss acts, peers work, or top management communicates, and then the employer brand blows up. Nothing is worse for an employee than to show up on day one and find that the portrayed organization is a ruse. People joining a company that presents false premises rarely stay long if they have options, and if they do not, they stay but never stop complaining about the inconsistencies whether out loud or by the proverbial water cooler, now called Glass Door, Facebook, or Twitter.

Part II: Building a Great Employer Brand

The second part of this chapter highlights a process (see Figure 3.1) for developing an effective employer brand and talent value proposition (TVP). There are five key phases:

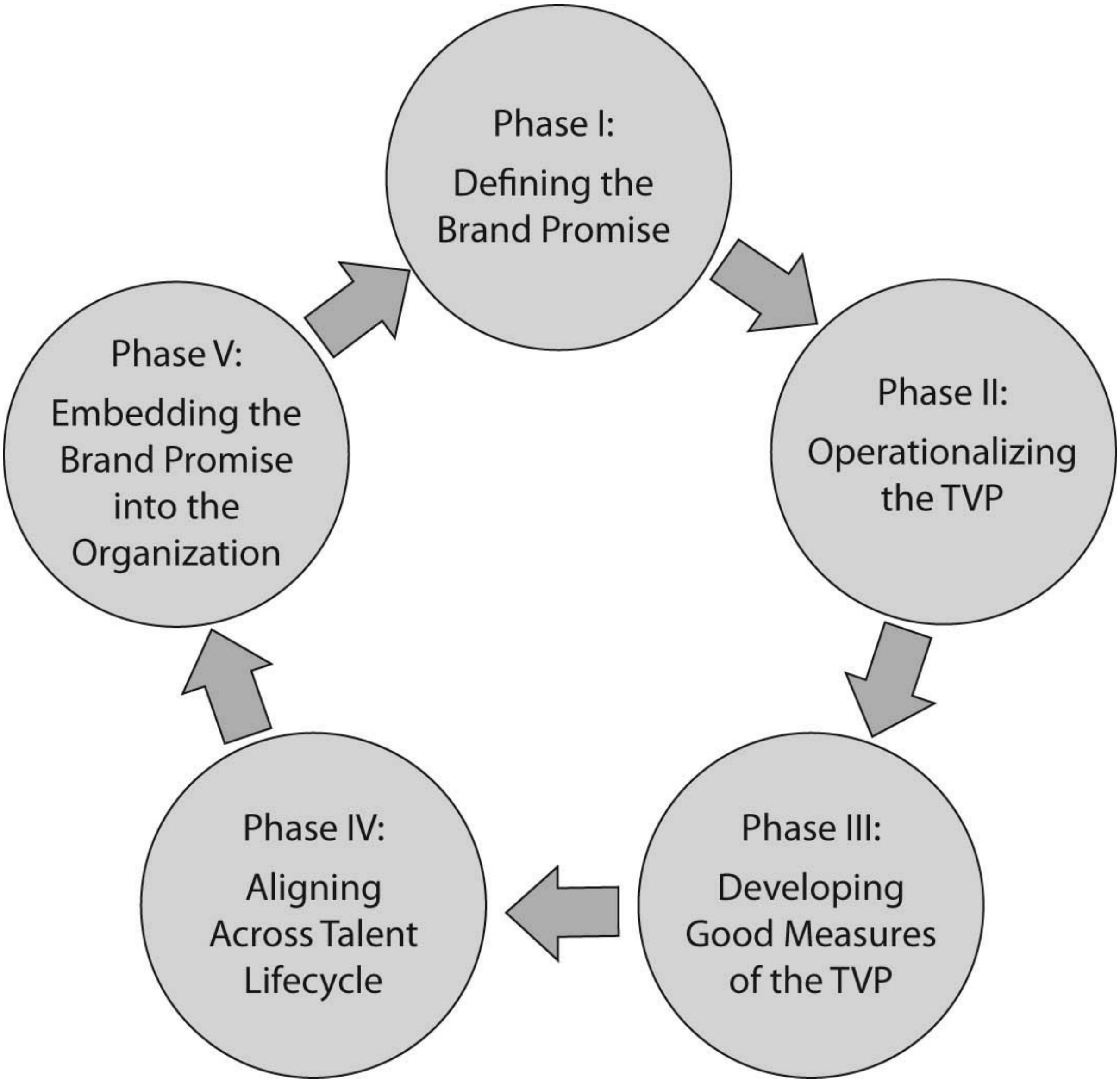

Figure 3.1 Five Phases to Building an Employer Brand

I. Defining the brand promise.
II. Operationalizing the TVP.
III. Developing good measures of the TVP.
IV. Aligning across the talent life-cycle.
V. Embedding the brand promise into the organization.

The development of a strong employer brand begins with Phase I, moving through each of the other phases and returning to Phase I over time for reevaluation of strategy and brand as markets (customer and labor) change. The frequency of reexamination depends a lot on how quickly customers, competitors, and labor markets change.

Let's take a look at each of these phases:

I. Defining the Brand Promise

Marketing experts tell us that a brand promise conveys a set of expectations to a market. This reinforces the purchases made by current customers and makes the organization or its products more appealing to targeted prospective customers. For example, in the 1990s, Jack in the Box, a large quick-serve restaurant group, chose to focus its brand on young males, a key market for this company.[11] It built irreverent ads with a character called Jack, who was, to many loyal customers, an icon with whom they could identify—advertising genius! In their markets, Jack became a symbol of irreverence to the status quo. The ads brought in the right target customers, but also attracted employees who valued that image. They wanted to work at a place that their friends thought was "cool" and a bit irreverent.

A talent value proposition should meet three key criteria:

- *Essential:* To support the organization and brand strategy.
- *Attractive:* To the targeted labor market.
- *Realistic:* Regarding the current way business is done or will be attainable in the near future.

The combination of *essential*, *attractive,* and *realistic (EAR)* criteria (see Table 3.1) is crucial in thinking about any employer brand strategy and its complementary communications.

Employer Brand Attribute	Essential?	Attractive?	Realistic?
Service excellence	Crucial	Mixed importance	Close to reality
Ethical and above scrutiny	Crucial	Crucial feature	Close to reality
Flexible work environment	Important	Crucial Feature	Long stretch
Learning environment	Important	Crucial feature	Short stretch
Open communications/ transparency	Important	Crucial feature	Long stretch
Financial and analytical acumen	Crucial	Low importance	Close to reality

Table 3.1 EAR Brand Attributes for a Service Organization

Essential characteristics are important to the vision, mission, values, and business strategy—thus are central to the TVP. What are the key promises being made to customers or other stakeholders? Is the organization known for certain market values such as innovation, service, affordability, or technology? Reviewing the vision, mission, strategic goals, corporate reputation, and brand promises will help determine which internal attributes are important. For example, at Qualcomm or Apple, innovation is a central promise to shareholders and customers, and therefore must be a key part of the internal values. Potential job candidates will not consider coming to the company if they don't feel that they will have access to leading-edge tools and a culture that supports innovative ideas. When the approach is not *essential*, it is hard to get top managers to support it. If they don't see the criticality of becoming "service focused" or "flexible," then there is little compelling evidence to secure resources or the willingness of top management to support those brand attributes.

When the attributes are not *realistic*, they may attract employees who will quickly find them to be fraudulent, leading to disillusionment and early departures. When we conduct focus groups with employees in firms in which the attributes communicated are not realistic, we often see the tactics backfire, with current employees becoming distrustful of management. For instance, one employee at a technology firm said, "We've been talking about cross-functional teamwork for years, but there is no support for it, so nothing changes."

To assess realism, it is imperative to listen to different stakeholders—recruiters, former employees, new hires, current employees, partners, suppliers, and customers—who identify the current strengths and weaknesses of your talent brand. Table 3.2 provides an example of the current strengths and weaknesses of the brand for the bank I mention earlier. Note this is not management's view, but a view that came from at least five different sources, thereby reducing one-view biases.

Strengths	Weaknesses
• Stability/low risk	• Low flexibility
• Reputation and prestige	• Very bureaucratic
• Benefit and health-care needs	• Slow decision making
• Good training and development programs	• Technology "follower"
• Good work-life balance	• Absolute pay and pay growth low

Table 3.2 Potential Strengths and Weaknesses of the Employer Brand Today

While some changes to the employee experience will increase retention and engagement, will they increase *attractiveness* to potential new employees or contributors? Assessing how appealing various attributes are to potential contributors is important. What an organization wants and what the market expects may be two different things. For example, results of recent interviews we conducted with millennials suggest that they are looking for more than money. They often seek alternative work hours or modes of working, and they want to develop portable skills they can take with them on their life journey.[12] They also seek work and organizations that have a purpose and desire to find fulfillment not solely in one sector of their lives such as work or family alone.[13] But research at the Metrus Institute tells us that these attributes are not isolated to millennials. Many gen Xers and baby boomers seek these as well.

Another perspective on *attractiveness* can be ascertained by identifying *threats* and *opportunities* to the talent market. Table 3.3 provides examples of several threats and opportunities identified by our aforementioned banking team. These are less about the organization and more about what is happening "out there." If the example bank is able to create and implement more flexible working conditions, it could be an opportunity, and if not, it may threaten its ability to attract talent. Another threat is business acumen, which is generally low in the prospective employee market. Given its importance, the bank will most likely need to hire those with at least the mindset and ability to learn the skills.

Opportunities	Threats
• Some candidates want stable, long-term positions	• Culture not as appealing to millennials (flexible working conditions, slow paced, low technology, bureaucratic; growth is slow)
• Increasing availability of part-timers	• Talent war with more poaching of people in pivotal roles
• Company awareness (consumer brand) well known	• Limited business acumen skills in the market

Table 3.3 Potential Opportunities and Threats to the Employer Brand

Competitive Analysis—Putting Brand Attributes to the Test

A good assessment of the targeted labor market and what competitors are offering provides additional ingredients to assist in determining what employer brand features might differentiate your firm in the market. Some may exist within the firm already, while others may need to be developed in order for you to stay abreast of the market. Table 3.4 shows a comparison of such attributes for the bank and for two competitors in the same labor market.

Employer Brand Attributes	Our Firm	Competitor A	Competitor B	Relevant Labor Market
Service excellence	H	M	M	L
Ethics	H	H	H	M
Stability	H	H	M	M
Flexibility	L	M	H	M
Growth and learning opportunity	M	L	M	M

Table 3.4 Competitive Employer Brand Analysis (H = high; M = medium; L = low)

In this competitive analysis, it is clear that the bank has competitive differentiation in service excellence and flexibility—service much higher than the market and flexibility much lower. The service excellence attribute will buy it little in that the prospective hires do not necessarily value that highly. In contrast, the flexibility attribute will hurt it because the dominant labor market—newly entering millennials and gen Xers looking for alternative work schedules—values it highly, and competitors are offering more flexibility than this bank.

Growth and learning provides an interesting opportunity for the bank, however. No competitor is offering strong growth and learning opportunities; if the bank could increase this to a high, it would have a unique position for the near term. Also, in today's labor market, this would be a very attractive feature to entering millennials, who value growth and learning a great deal. And the improvements to flexibility would be attractive to both millennials as well as to mature boomers who would perhaps like opportunities to move into more flexible roles (for example, part-time or leaves) from their full-time position.

II. Operationalizing Your TVP and Employer Brand

The next challenge for the employer brand team is operationalizing the TVP. A key step is developing clear operational definitions for each proposed brand attribute as displayed in Table 3.5 for the attribute of Flexibility. I can't stress enough how many efforts have nosedived at this stage because of lack of clarity, allowing different stakeholders to interpret what is meant by flexibility in their own way, which is often different from one stakeholder to another.

Target Employer Brand Attributes	Operational Definition	Is Now	Could Be	Rationale	Barriers to Change	Resources Required
Flexibility	The willingness and ability of our organization to adapt to a variety of employee needs	Policies and procedures do not allow for much latitude	Work climate that meets customer expectations but allows maximum workforce flexibility to balance work and family needs	Low flexibility reduces hiring acceptance rates, is one cause of turnover, and reduces millennial satisfaction	• Executive mindset; flexibility will not decrease productivity • Absenteeism, sick leave, and productivity policies/ measures	• Executive/ mgr'l education • Executive communi-cations • Revised policies • Educate workforce on goals/proper use of flex

Table 3.5 Operationalizing the Employer Brand

The next key is contrasting the "is now" with the "could be" (see Table 3.5). The leadership team members must now make some key choices on which brand attributes they are willing to support. This is the alignment moment of truth, because the leadership team is committing to realigning the organization to ensure that the "brand in design" is also the "brand in practice." From this point forth, the "could be" becomes the "should be" guiding beacon for the remaining branding alignment stages.

Few stakeholders are going to buy into the brand attributes—especially those requiring change—without a clear rationale. Here the design team members can provide summaries of the analyses that led them to recommend each attribute.

The last two columns of Table 3.5 are critical because a lack of agreement by senior management often results in poor implementation. The data collected from the discovery stage should identify the key barriers to change, and often some of the resources required to support a particular attribute. As in the example here, executive mindset was identified as the biggest barrier to developing a flexible work culture, and without discussion and commitment by top leaders to change, nothing will happen. Similarly, to reach the level of service excellence being recommended as a key differentiator, training is identified as a key resource requirement.

The result of this stage is a clear commitment to the core TVP attributes that the organization must align with in order to provide a clear brand that is aligned with both the customer and labor markets.

III. Measure Your Employer Brand

If you can't measure your employer brand, you can't manage it. Without measures, it is impossible to ascertain whether the talent branding effort is being implemented and paying off. Measures come into play in several ways. While a full treatment of measurement is beyond the scope of this chapter, here are a few suggestions on what and how to measure:

- *Attraction measures:* Volume or flow of applications, referrals, and possibly structured surveys to recruiters on key attributes—especially ones that you are trying to change.
- *Retention measures:* While overall turnover could be used, retention of key roles and individuals may be more valuable. Skip exit interviews that are notoriously incorrect, and assess former employees who departed 3 to 12 months ago. Their new comparative framework provides excellent information.
- *Culture assessment:* Your TVP lives in the daily behaviors of the organization, so assessing employees through an employee survey that focuses on key elements of your TVP is key to understanding how well the organization is "living" the new or aspirational value proposition.
- *New hire surveys:* New hires are in the unique position of seeing how aligned the organization is in its messaging. How aligned is messaging across attraction (image), recruiting, selection, hiring, onboarding, and the first days on the job?
- *Turn-down assessment:* For those with high hiring rates and a reasonable percentage of turn-downs to offers, it is worth checking in to find out what is going wrong in the attraction and selection process. Are we attracting the wrong people, or are people discovering something toxic about our organization?

Last, it may be important to measure the potential labor market, especially in critical jobs. Too often an organization looks only to data from its own applicant pool. What about those who never apply? Are they not applying because your brand is clear, and they are not aligned with it? Is your firm on their radar at all? Do they have misperceptions of your organization as a place to work?

IV. Alignment Across the Talent Life-Cycle

Today, managers at smart organizations are thinking about their brands in the context of the entire talent life cycle. Metrus has espoused using the talent cycle in thinking about the employer brand, but also as a tool for thinking about all of the HR and other processes that must be aligned across different stages of employees' experiences.

While market awareness, talent attraction, selection, and hire are important stages, additional elements are required to optimize and retain that talent (Figure 3.2).

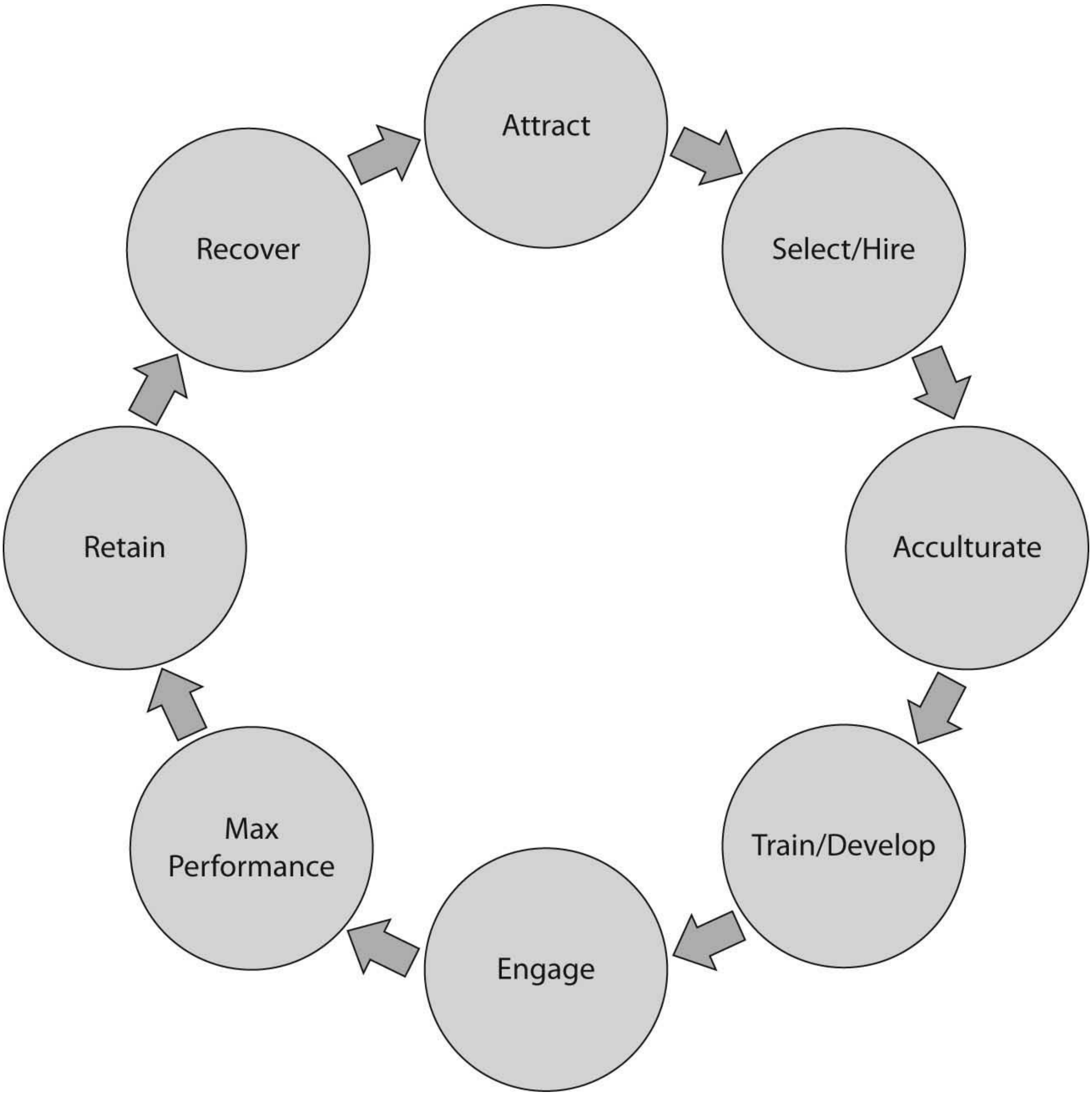

Figure 3.2 Talent Lifecycle

For example, an important branding test occurs immediately after hire—acculturation. Says Aberdeen Group, only 32 percent of companies have a formal onboarding program in place, and only 73 percent extend their programs beyond the first month.[14] Acculturation implies something deeper than traditional onboarding in many organizations. Acculturation means that new hires—employees or contractors—are being actively embedded in the culture of the organization as quickly as possible. Most people know within the first week if they have an affinity for the organization. Is this the brand that was advertised? Does it feel right? In some ways, this is the first real test of the employer branding and talent acquisition processes. If it doesn't feel right, it is important to discover why quickly.

We have found that this fragile stage is critically important and that the employer brand can provide a link between talent marketing and talent management. If the brand says we are highly ethical, new employees should not hear a boss or peers telling them that they can stretch their expense accounts shortly after orientation. One key tool we find helpful is a new hire survey to assess how well the acculturation is going at a time when corrections can still be made.

Beyond acculturation, the design and execution of other talent life cycle processes such as development, performance management, and engagement all play a key role in living the brand. For example, when we do brand assessments at Metrus, we look at a number of factors ranging from leader behaviors to HR systems that are aligned or misaligned with the employer brand promise. Table 3.6 provides an example of some of those categories. Furthermore, we have found that a significant amount of this information can be obtained from a brand/culture survey of employees coupled with targeted interviews and focus groups.

Source	What	How
Senior leadership	• Vision/mission/values	• Policies/communications/behaviors
HR/people systems	• Recognition/reward • Performance management • Development	• Rewards for performance/celebration of achievements • Approach to appraisals/goals/feedback/ measures • Training opportunities, emphasis/coaching/ mentoring
Manage /coach	• Fairness • Growth • Respect	• Treatment of individuals • Growth planning/training • Inclusion/communications
Culture	• Values/dominant behaviors	• Transparency/flexibility/innovation
Peers	• Interactions	• Teaming/no bullying/resources
Nonwork stakeholders	• Fulfillment/ work-life integration	• Policies/ ecognition of nonwork life / stress

Table 3.6 Key Organizational/Culture Factors Affecting Employer Brand Alignment

Implicit in this information are the answers to how well the existing organization is aligned with the current (or desired) brand promise. Not all the factors mentioned above are equally important. If one has done initial market and organizational assessments, certain factors will be far more important to the organization and to different types of employees. For example, being innovative at Qualcomm may be important in recruiting and keeping engineers or software developers, but it may be less important for other functions. At Nordstrom's, with its customer intimate brand differentiation in the retail space, living the brand will require attracting people in customer-facing roles who value service and can exemplify it.

Here are three key focal areas from our experience:

- *Align leader behaviors:* Help the leadership team identify how its members' behaviors will need to change and how they will hold each other accountable for those changes. One of the most frequent findings in our employee survey work is leader behavior that is inconsistent with the espoused values. Said one manager recently, "The company promises service to the customer, reinforces that during manager training, and then the area managers push for speed and efficiency instead of service."
- *Managing resistance:* It is extremely helpful to prepare for resistance and have a plan to overcome it. Levels of the resistance will depend on how much change the brand promise will bring to individuals. If the promise is a significant departure from the past, then high resistance should be expected, and this should be viewed as a significant transformation.

  The reality is that change is not easy and rebranding requires more communication than you might expect. The changes will affect employees differently. What may exhilarate one ("Thank goodness we are finally getting rid of those silly policies") will debilitate another ("Great, how will we make decisions without those guidelines?").
- *Communicate the TVP/employer brand consistently:* A key, but often fumbled step in the implementation process is communicating the brand promise to key stakeholders. The brand promise should be simple and compelling (see box) for several examples from leading firms). Once there is strong agreement on the brand attributes that are most important and agreed-upon operational definitions and measures, the brand must be effectively communicated to key stakeholders: potential labor market, employees, contractors and other labor sources, and sometimes customers. The leadership team must be clear in its communication and visibly demonstrate commitment. Team members cannot have doubts or waver in their enthusiasm for the employer brand, and they must link communications, decisions, and resources to the brand commitment. Discussion sessions, town halls, or questions and answer sessions to discuss the brand implications are especially important beyond a laminated wallet card, videos, and newsletter stories. Cascading the brand promise throughout the organization is most effective when

teams take the responsibility for converting its message into a set of actions designed to influence local priorities and behaviors. What will they do differently tomorrow?

Sample Abridged Employee Brand Messages

Ritz-Carlton

The Employee Promise: At The Ritz-Carlton, our ladies and gentlemen are the most important resource in our service commitment to our guests. By applying the principles of trust, honesty, respect, integrity, and commitment, we nurture and maximize talent to the benefit of each individual and the company. The Ritz-Carlton fosters a work environment where diversity is valued, quality of life is enhanced, individual aspirations are fulfilled, and the Ritz-Carlton mystique is strengthened.[15]

Google

It's really the people that make Google the kind of company it is. We hire people who are smart and determined, and we favor ability over experience. Although Googlers share common goals and visions for the company, we hail from all walks of life and speak dozens of languages, reflecting the global audience that we serve And when not at work, Googlers pursue interests ranging from cycling to beekeeping, from frisbee to foxtrot.[16]

3M

We strive for an inclusive environment where employees feel safe, engaged and free to create and innovate. Inclusivity is woven into our leadership behaviors.[17]

We consider everyone a leader and provide development opportunities at each stage of your career … you will be learning, growing, and doing challenging, rewarding work that benefits you and 3M. Your opportunities are endless.[18]

Zappos

At Zappos, we give you the creative freedom and autonomy to follow your passions in a way that suits you best. … we fight the strains of bureaucracy by replacing it with a new self-organizing system designed to focus around fulfilling work without office politics. We also promote a team and family spirit that fosters camaraderie across the company through cool, collaborative spaces.

Most importantly, we encourage you to be yourself and have fun. We like having a good time at work, not just outside of it. There's no need to hide your random quirks or awkward dance moves from us. In a way, you might be taking a "break from life" by working here![19]

Gore-Tex

We believe in the individual and each associate's potential to help Gore grow and succeed. We also believe in the power of small teams, and through Gore's lattice structure, associates can communicate freely to assemble talents and diverse perspectives to quickly make good decisions and produce quality work that helps us deliver on our promise to our customers.

Our decisions are based on long-term payoff, and we don't sacrifice our fundamental beliefs at Gore for short-term gain.[20]

V. Embedding the Employer Brand Promise into the Organization

Our research and advisory team has witnessed many efforts to introduce new concepts into the organization—balanced scorecard, activity-based costing, process reengineering, Six Sigma, to name a few. Most organizations that launch with real commitment after the first four phases have some initial success. Everyone is revved up, the CEO or other leaders are giving it attention, people are meeting with leaders and colleagues, and something new is being hatched.

But then the reverse occurs. Once the new baby is born, it is just another one of the children among many mouths to feed. The CEO often turns to deal with crises, the meetings stop, the discussions with peers dry up, and the exciting vibe is lost. The result: the organization falls back to its old habits. Professor John Kotter at Harvard calls this, "Declaring victory too soon!"

Unfortunately, this return to old habits is often accompanied by frustration and cynicism regarding the effort. During a period in which we were helping many organizations develop, install, and begin using a balanced scorecard, we saw this over and over again. After one very successful year developing and beginning the implementation of a balanced scorecard approach to managing the business with one energy company, the president asked his team, "Well, we did the balanced scorecard last year. What shall we do this year? Six Sigma?" My heart sank along with the hearts of his transformational scorecard team, who realized that it would take at least three years to bake the new measurement-managed scorecarding approach into the culture. Fortunately, we were able to curb some of his "let's conquer another hill" enthusiasm and get back to the business of embedding the change into the organization.

During this stage, we have discovered four best-in-class practices.

- *Review the right metrics regularly:* The key is to stick closely to the measures you developed and review them regularly—at least quarterly. Conduct *pulse surveys* of key aspects of the brand with key stakeholders to ensure that the organization is making progress. This establishes the branding effort as a regular part of managing a business. Says Marisa Harris, former vice president of human relations at CIT Group who co-led a hugely successful brand and culture change with her CEO, "Unless you review the results of the implementation and hold people accountable, nothing will happen. Reviewing key metrics each quarter with the leadership team kept the process visible and the accountabilities transparent."
- *Communicate transparently:* Unlike some CEOs who keep data close to the vest, we have found that execs achieve far greater impact by broadcasting results far and wide. The more people understand the "should be" and "is now," the more they will think about ways in which they can propel the organization in the right direction.
- *Conduct challenge sessions:* Change in habits is difficult. In our change management work, we have found two things that help. First, identify the behaviors that should be extinguished and the others that should be increased. Second, schedule periodic challenge sessions to find out what is and what is not working andseek suggestions for how to accelerate success.
- *Review the model:* Last, even good brands are not forever. The world is constantly changing. The employer brand should be reviewed on a regular basis, more frequently in markets that are changing rapidly.

New Economy Considerations

Change is ubiquitous, and as the rules of human capital engagement continue to be shaped, there are some important considerations for employers that may influence your employer brand thinking. Here are a few:

- How will the growing Tech-oriented economy affect your plans? Some projections tell us that more than one-third of workers could be contributing in roles that are not structured as traditional employees—contractors, outsourced labor, on-call, external project teams. The fundamentals of building a brand that attracts talent still hold—and in fact, take on greater significance when there is a wide range of ways that people can participate with the company. When you have a culture that attracts people, regardless of employment preference, it is a win-win. I know contractors who have supported one company over many projects for years and others who were one-hit events, after which the contractor never wanted to work for the company again. Will your brand hold up to different types of workers you anticipate employing going forward?
- Decentralized, distributed workforces are increasing, especially for global firms, enabled more and more by technology and cost considerations. Our interviews with many firms suggest that building a brand is more challenging under such considerations. First, there are local norms of behavior that must

be addressed—might interest in employee development be considered intrusive in some cultures? Care is needed in tailoring the talent brand message for each region while maintaining the core elements that support the company. Second, decentralized, distributed workers often find it harder to team with others connected to the organization. And far-flung employees working alone often miss out on acculturation and branding events that may be integral to the brand's attraction, and along with it its ability to retain them. In these cases, additional actions may be needed to connect to such employees.

- Last, we are experiencing an environment in which the meaning of work, the vision or purpose of the organization, mindfulness, and fulfillment are increasingly important to workers. This is especially apparent with millennials and others newly entering the workforce. Our research on fulfillment, for example, informs us that employer brands will need to attend to purpose and whole-life fulfillment, not simply engagement at work in the traditional sense. While companies have largely moved away from paternalistic cultures, many employees do not simply want contractual exchanges—money for time. A key here is work-life integration. Firms that can approach employees or contractors more holistically to understand how the proposed work fits into their overall life plans will have a distinct advantage. This requires not only vision and radar that goes beyond the workplace boundaries, but also managers who are trained to understand individual differences and know how to incorporate them within the workplace under a supportive employer brand. Employer brands that already acknowledge this need for work-life integration are already sporting a more attractive talent magnet.

Summary

Creating, maintaining, and refreshing an employer brand is an ongoing process; one requiring careful consideration in selecting elements that are essential, attractive, and realistic in their support of your strategy and customer brand. The potential rewards are enormous in the ability to attract and retain the "right talent"—talented employees who are ready, willing, and able to engage with your organization. As with most transformation initiatives—commitment, communication, and follow-through are key!

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Part II

Talent Management Building Blocks

Chapter 4

Formulating Competencies

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COMPETENCY MODELS ARE PERVASIVE. OVER 70 PERCENT OF FORTUNE 100 COMPANIES are using competency models,[1] and they are equally prevalent in private and public sector organizations around the world. They cover a range of talent management practices, but the ways competency models are formulated vary considerably. Originally competency models were formed through investigative techniques that ranged from interviewing job-holders to surveying managers and employees. These techniques persist, but increasingly we observe senior executives crafting competency models. So are formulating competencies the preserve of experts or should the formulation process be adopted more broadly in the organization? And where does formulating competency models fit in the arsenal of tools in talent management?

In many organizations, the formulation of competencies was seen as a necessary but somewhat time-consuming activity that practitioners could not wait to get over so that they could get down to the real application. In this chapter, the act of formulating competencies as a key part of talent management and that should be supportive of the strategic intentions of the organization is encouraged.

Outside experts or internal leaders in the talent management function need to play a role in facilitating the construction of competency models. However, line managers need to be intimately involved. The top management team should embrace competencies as a key component to drive strategic change. Therefore, practitioners need to help line managers understand what competencies actually are and how they can be used in their organization.

Many practitioners espouse competency models as the perfect vehicle for integrating a range of human resource practices. In this view, common dimensions built around knowledge, skills, abilities, and/or other attributes required for work should be the core drivers at the heart of talent management systems (for example, selection, appraisal, development, training, and compensation). But this is not as self-evident as many of the proponents would have us believe. For example, in selection we might want to consider avoiding the hiring of people with personality profiles that suggest potential derailment. These are not usually included in a competency model. In appraisal, we might desire to put more emphasis on what goals have been accomplished. In development, we might want to encourage the acquisition of new and specific knowledge. Sometimes there is a relationship to competencies but trying to integrate these elements into practice makes for more complexity. Line managers then find them difficult to use, and employees have trouble understanding them.

The key proposition of this chapter is that the modern use of competency modeling is a strategic process that links business, organization, and talent strategies together. Competencies should not be developed in the confines of the human resource function but rather with the senior management team. Rather than underpinning the human resource systems, competency models should underpin strategic execution as well as other types of related applications (for example, culture change or new venture creation). The development of competencies should also involve some level of risk management. The risks, if they are absent, should be emphasized as much as the relationship to effective performance when they are present. This proposition does not diminish many of the practices that have grown up around modeling competencies. We believe the competencies should be looked at in a new light.

What Is a Competency?

There are myriad definitions that are not helped by common usage of the words *competence* and *competency* in the English language. Out of this debate there are two main traditions that are somewhat at odds with each other but in practice start to fuse together. I refer to these as the "McClelland" approach and the "Schippman approach." (Schippman is not the original author of this approach but he and his collaborators have a well developed summary of the issues surrounding competency models.)

The McClelland approach arises out of a seminal article McClelland wrote in 1973. The article's main purpose is to challenge the overuse of IQ tests in selection up to that time and also in McClelland's view the absence of evidence of how other attributes of people positively affect performance. There was an overreliance, in his view, on the use of measures that had more place in clinical settings than in work settings. While the warnings about intelligence tests are dated, there are many organizations where the underlying assumption endures—if we only hire bright people everything else will follow. McClelland questions what "bright" means and also whether this "brightness" has anything to do with what follows after! On the issue of the overuse of clinical measures, today's organization psychologists would contend that a lot more work has been done and that there is a common set of attributes associated with positive performance in any role.[2]

McClelland sees a competency as any attribute (for example, knowledge, skill, motivation) that differentiates outstanding from average performance. He is not concerned with defining what is expected from people in a job but to find out what really makes the difference. He advocates that to understand competencies we need to look at both outstanding and average performers (not below-average performers) and find out what gives the outstanding performers the edge.

Extensions of this approach have made explicit that competencies can be made up of a number of levels and often described in the "iceberg model of competencies" (see Figure 4.1).

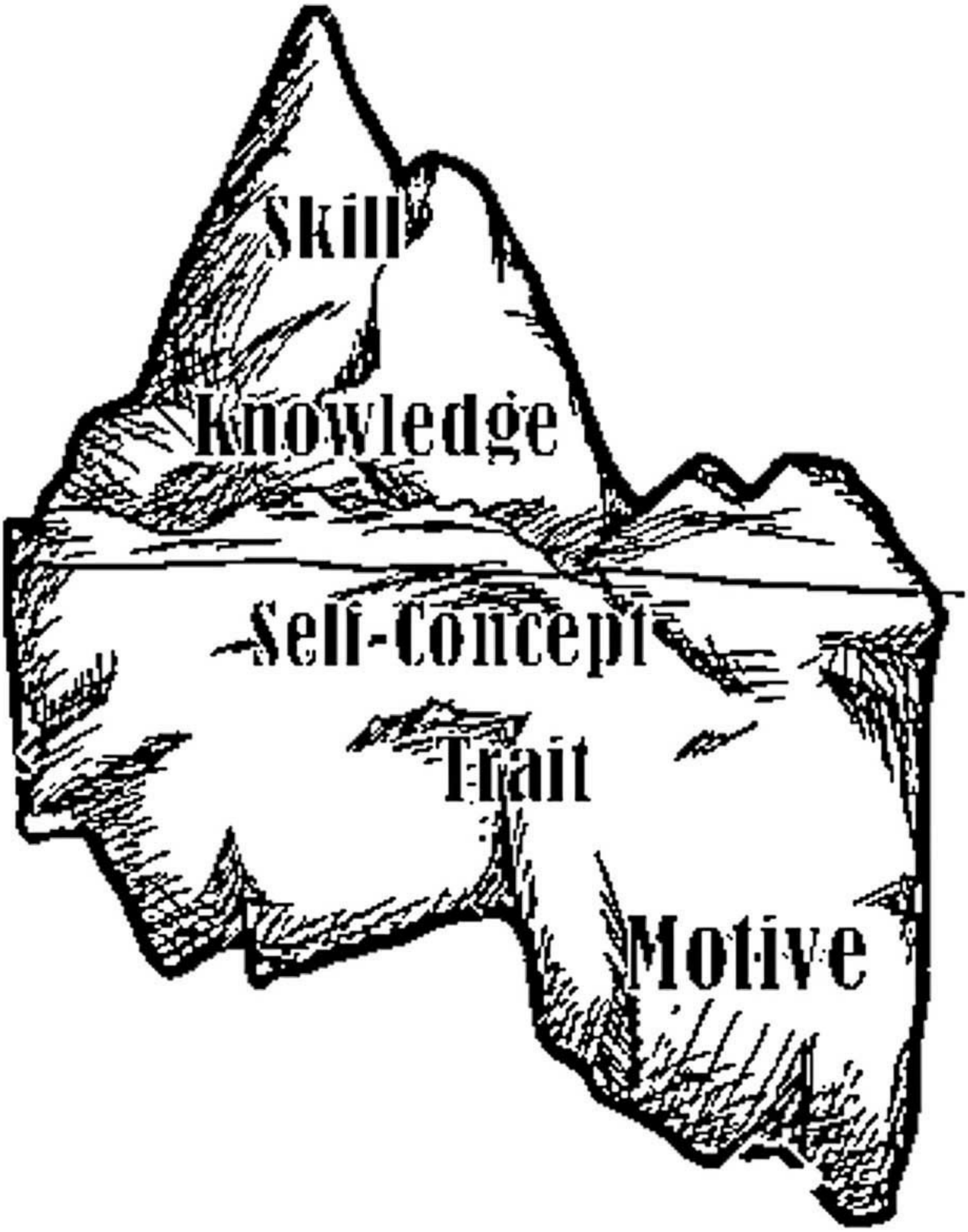

Figure 4.1 The Iceberg Model of Competencies*
***Adapted from Spencer and Spencer (1943), p.11**

As part of a management process in formulating competencies, this diagram is useful for senior teams. We are all used to seeing the obvious manifestations of what people do (the aspects above the surface in knowledge and technical skills). But teams can develop deeper insights by diving deeper. What causes people to perform as they do? Note that we are not trying to turn line managers into armchair psychologists. Instead, this process encourages us to think more deeply about our own beliefs and motivations in order to understand the beliefs and motivations of those who work for us or with whom we would want to work.

The Schippman approach arises out of a frustration that many organizations find it difficult to substantiate who is an outstanding performer. Many talent managers are skeptical that just understanding these attributes will be necessary for widespread adoption in applications such as selection or appraisal. They also contend that the definition of what can be in a competency is so broad that measurement is difficult. Often there is confusion between job and people requirements. So in working with teams around formulating competencies, we need to be clear that competencies are not tasks. Competencies are what people bring to the role and not what the person is actually required to do in the role or what they are accountable for. So a more commonly used definition by recent writers underlines that competencies are the "knowledge, skills, abilities and/or other characteristics (KSAO) and behaviors that align with organizational strategy and are necessary for effective performance.[3] While many of the writers around this have been concerned about having more rigor to what should be measured by a competency, this definition is more than of academic interest. The focus for a team emphasizes that these attributes must be associated both with effective performance in a role and linked to an organization's strategy. Again, like the use of the iceberg diagram, the exercise of formulating competencies should be a tool to help line managers gain a lot more clarity about how to drive performance in their organization.

Over time, there have been refinements concerning what is desired when building competency models. In McClelland's original formulations these models were all for single roles. This was largely because original applications focused on selection and training for very specific jobs. But models have been developed for clusters or families of jobs and more recently for whole organizations. This was increasingly important if models were to embrace a range of applications and roles in an organization. Spencer and Spencer (1993) produced the first of a number of dictionaries that collate a common set of dimensions.[4] They introduced the notion of "competency scales" based on just noticeable differences to describe how people could display different levels within the same competency. This is a useful distinction to introduce to line managers. For example, if "listening and responding to others " were a key competency, then at its basic level this might be observed through someone "picking up cues through others," whereas a much higher level would involve demonstrations of "acting to help."

Some practitioners use a related method to describe a hierarchy of behaviors: What would be the basic level that would indicate someone has this competency? Then what would be a competent level? Then what would be the advanced level and then the expert? There are two basic tasks required to construct this. The first is to define noticeable differences so that the levels are clear for every competency. The second is to decide what profile is required for any particular role because for different roles there will be different expectations of required levels. This is a template that can be used with a group of managers to reach consensus on determining the behaviors and other characteristics to drive performance in an organization. The challenge is ensuring that the underlying concept of the competency is consistent across all levels. An organization, therefore, should limit its number of competencies to between six and nine.

Why Competencies Are Still Important

A traditional alternative in talent management to building competency modeling has been "job analysis." This is more focused on the content and requirements of a role. If you see a competency as knowledge, skills, abilities, and/or other characteristics that make for effective performance, then there has to be some level of analysis of the role in order to define "effective." But in most organizations today the idea of fixed job requirements is something of an anachronism. Fixed job requirements are at odds with the pace of change that many organizations face. Fixed job requirements are less important in roles where the main underlying attribute of the job depends on the knowledge and approach of the person in the job. While it would be difficult to envisage an organization where there is not some level of replication in a role (after all, job incumbents will certainly not be there forever or at least that is not a good assumption), what the person brings to the role will often be more important in today's environment for shaping the role. In this context, it is particularly important to define the knowledge, skills, abilities, and/or other characteristics for effective performance.

Making Competency Formulation a Strategic Process

Many competency models are developed in human resource departments with little relationship to the actual business.[5] However, modern practice has more and more competency models embedded in strategic and business discussions and so should not be seen as part of an integrated methodology that has talent management and strategic issues as intertwined. Figure 4.2 illustrates a step-wise process for working with a senior team to generate strategic competencies for the organization. Note that we go through quite a few steps before we get to formulate competencies. The process is important. The final output of competencies will be better for the attention to where they fit in the organization's strategy. Competency formulation has to be seen as part of strategy building.

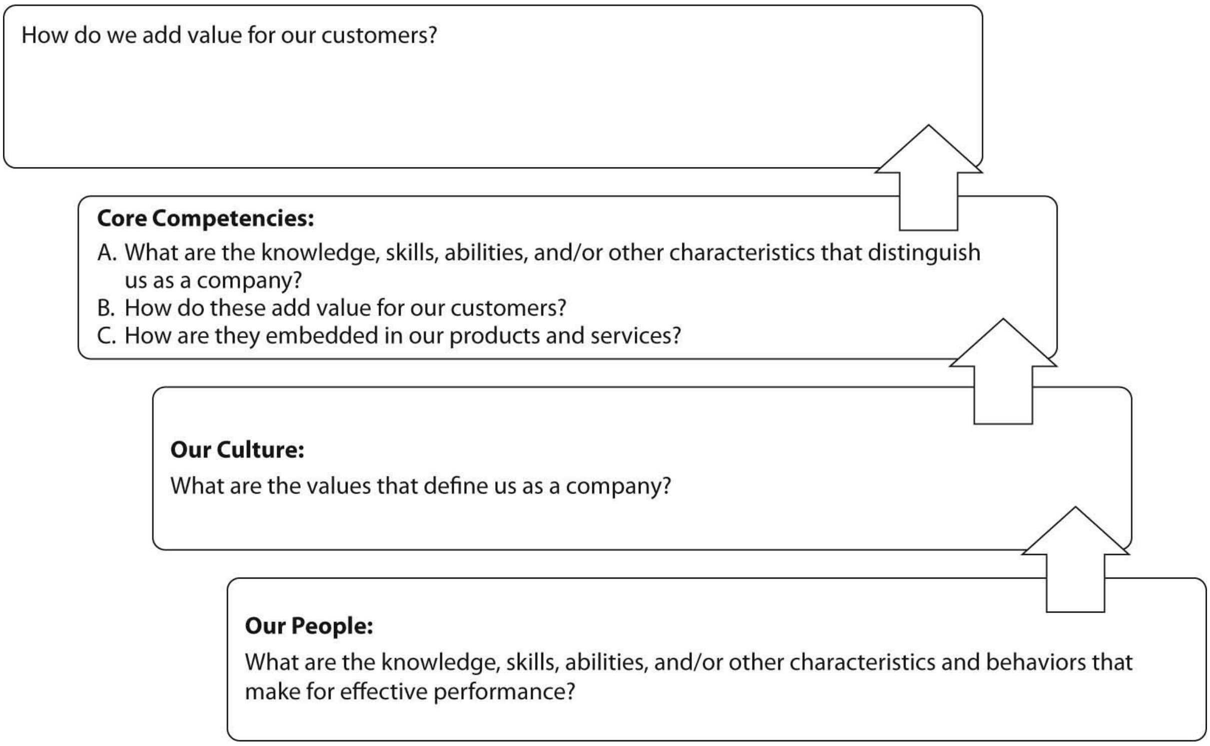

Figure 4.2 Competencies in the Strategic Value Chain

Step 1 starts with a concrete view of what the business is doing for its customers. How does the company or organization add value for customers? This goes beyond a description of products. Imagine a cement company. Clearly the company provides cement to their customers. But a value statement might read, "Provides material solutions that enable *our* customers to meet the needs of *their* customers." An alternative value statement might be, "To provide the materials that do the job when the customer needs them." Both of these could be true. Best practice would be to limit the list to about three key items at the most. Quantity is not a big issue, but quality is. These statements should reflect something that the company believes it can deliver on and is very important to its customer. The more unique this is, the better chance the company has of achieving competitive advantage.

Step 2 introduces the concept of "core competencies." These can be defined at a company level the same way as personal competencies but at the company level: the knowledge, skills, abilities, and/or other characteristics that distinguish the company overall. These are often referred to as "core competencies." The wording is important: "*distinguish* the company." Later we will ensure that these can be described at the level of an individual. Many teams easily come up with what *defines* them (for example; customer-focused or working to complete the task). But the attributes that make the company stand out are more difficult to determine and need to be debated.

Often it is helpful when the team agrees on a tentative list of distinguishing attributes and moves to a second issue: assess how each of these attributes adds value to the customer. As part of this exercise it is useful to refer back to the first step. The cement company that provides solutions could decide that "customer intimacy" was a key attribute that defined it as a company: "We strive in every function and every level to understand our customers."

Another test on core competencies is to relate the core competency to a "product" or "service." The cement company that sees itself as a material provider has to be able to relate its customer intimacy to some core products. This might include a list of innovative materials that the company believes are important (we realize our customers need "environmentally friendly" materials to meet their needs) or an actual consultative service that substitutes for part of the sales force to help clients decide on best materials early in the bidding process.

In Step 3 this discussion has to be deep and may be protracted because it is the essence of strategic discussions. What follows from this is equally important in defining how people make the strategy happen. This discussion starts with a discussion of "what are the values that define the company?" What do we want to stand for as a company? What do we believe in? Again, this can generate a very long list—certainly longer than potential core competencies. But values are the beliefs that the company is going to live by. These need to be narrowed down. How do they add value to the customer? How do they relate to the core competencies?

“Honesty” is a great value, and in some settings especially when the overall environment might not encourage such a value, it would be something to pin on the wall. There doesn’t need to be a one-to-one correspondence between the value list and the core competencies, but for each core competency there should be at least one value that contributes toward it. If customer intimacy is a core competency, then perhaps “empathy” is a core value: “We believe that understanding and respecting each other and our customers is key to what we do as a company.”

Step 4 is then the discussion of the knowledge, skills, abilities, and/or other characteristics and behaviors that people bring to the organization. The key question is, “How do these characteristics drive performance in this organization?” The main methods described below for the formulation of competencies are all useful here. But, at its core, this must be a team discussion focused on the implications for the rest of the strategic levels.

A key method for driving the discussion deeper is to discuss what the implications are if someone does not have a competency or the right level of a competency. Competencies have traditionally been thought of as the attributes that need to be discovered or strengthened in individuals in order to produce effective performance. But another possibility is to use competencies as a framework to assess risks. The main underlying question is, “What are the consequences of absence of a particular competency in a person or in a role?” The tendency in competency analysis is to emphasize the strengths of individuals in terms of their competencies. But if the nature of work means that competencies are so fundamental and the cost of making bad choices high, then spending as much time focusing on the implications of absence of competencies is important.

Adding the dimension as part of the discussion of formulating competencies is a means of checking on ensuring that competencies are related to effective performance. If the role-holders did not have this competence, how would their work be affected? Take our cement company as an example again. Let us assume that “customer focus” is a key competency that leaders believe drives values and the “customer intimacy” core competence throughout the organization. A big debate can be about what will happen if it is absent. The damage is clear for customer-facing staff, but what would happen further in the organization? What happens in the plant? Does it drive how decisions are made? The traditional plant manager may believe they should run the plant in the most efficient way possible. This means that if a priority is set on running largest batch orders first and minimizing changeovers, having a customer focus would challenge this. The top team has to believe that the customer intimacy core competence is going to drive competitive advantage. In the short run, this may be a challenge, but in the longer run they believe this is the only way to build a viable and sustainable company. In this case, customer focus has to permeate the whole organization. If an exception is made in operations, then the core competence of the business cannot be achieved. On the other hand, if the efficiencies that the traditional operations manager espouses above customer focus wins out, the top team needs a different strategic lever to build competitive advantage.

Methods for Formulating Competencies

There are three fundamental approaches that are well established for formulating competencies: primary research, expert panels, and use of generic models or dictionaries. These methods are appropriate regardless of which definition of competency you use. They are also not mutually exclusive but will depend on the specific intervention you want to create while remembering that the outcome of formulating competencies has to be more than merely a model. It is a management development exercise in its own right.

1. Researching the Causes for Job Success

After McClelland’s article, there were a number of fundamental research studies that tried to understand what led to effective performance. The original models were had to have precise measurement tools attached. As these models came to be used in training and development and the requirement to have precise behavioral indicators associated with each competency became the standard model for presentation, the question arises, “How do we see people demonstrating these competencies?”

The research method is to identify people who are in the role (outstanding and typical performers if you are following McClelland’s definition or people who are seen as effective in the role if you want a broader definition The most common method of interview is the critical incident interview or a variant developed by McClelland and his associates called the *behavioral event interview*. This involves getting people to describe “incidents” or “events” that are particularly salient to their roles. What is important in this exercise is to ensure that the data being collected are not the people’s beliefs about what is important or what they value but what they do on the job. “Doing” has to be expanded because a lot of jobs also require thinking, so the interview should elicit doing and thinking. These interviews are best recorded and transcribed and then analyzed.

2. Using Expert Panels to Describe What Is Important in a Role

Expert panels, consisting of line managers familiar with the incumbent's role are frequently used to develop competencies. Some practitioners use panels that include incumbents or others who are familiar with the incumbent's role. The most common method is based on brainstorming knowledge, skills, abilities, and/or other characteristics and behaviors. The brainstorming method is followed by a process prioritization, refinement, and ranking of job competencies. The process reveals which competencies are most important for job success.

3. Using a Generic Model or Set of Models

Another starting point for a model can be a preexisting or generic model. One popular starting point is Goleman's model of emotional and social intelligence.[6] This deals with characteristics of successful performers in terms of what they recognize and how they regulate their behavior both in terms of themselves and others. The model is readily available. The model also deals with an issue that bedevils competencies. Competencies are by their nature characteristics of individuals. However, work gets done through people interacting with each other. The product of these interactions is what makes for effective performance at an organizational level. The Goleman model highlights the knowledge, skills, abilities, and other characteristics that are necessary in the relationship between people. Figure 4.3 illustrates the competencies that make up the model and how these are organized.

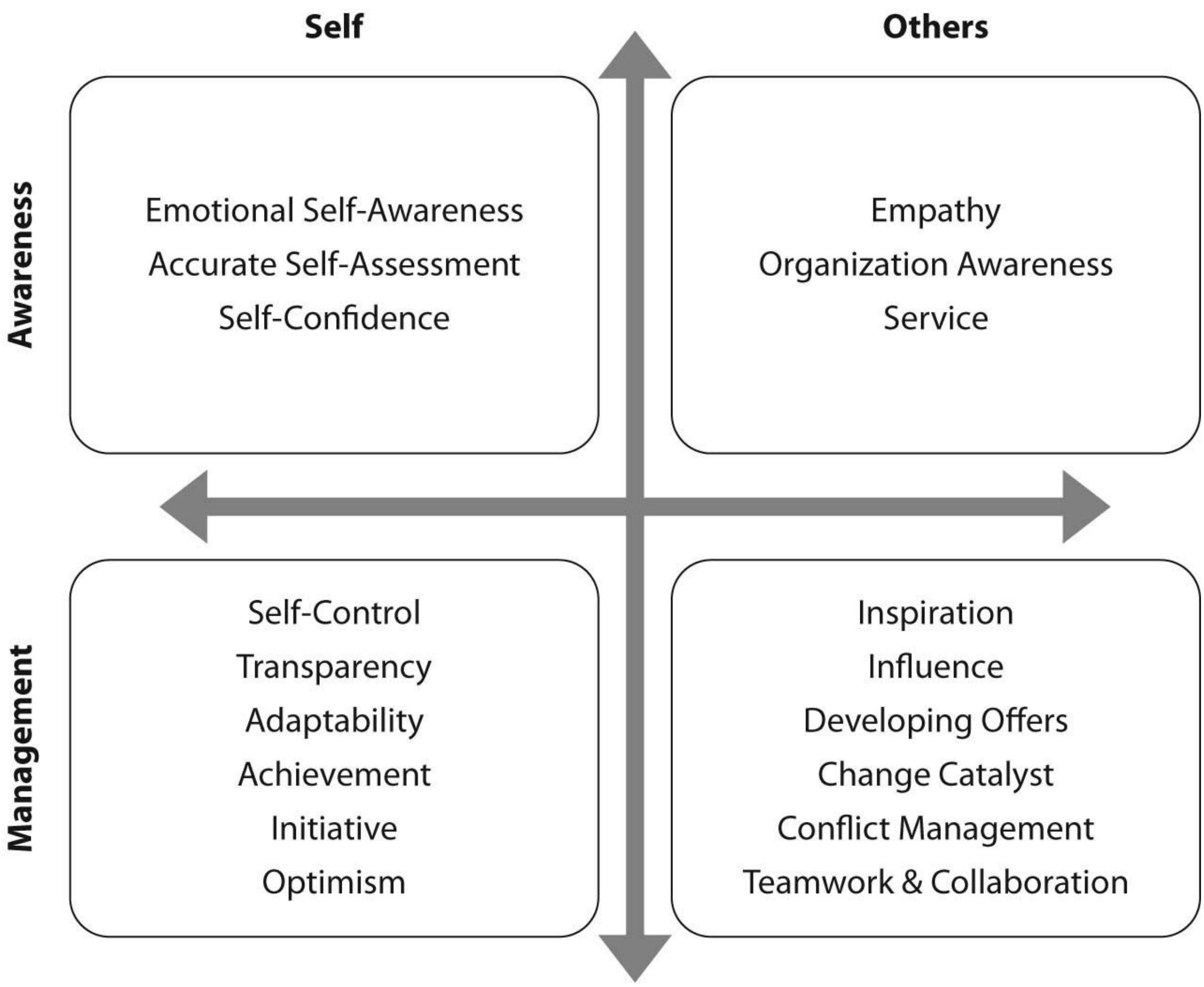

Figure 4.3 Generic Social and Emotional Competencies*
***Modified from Goleman, Bayatzis & McKee (2013)**

There are numerous collations of competencies. Some of these are available for purchase, and others can be downloaded free from the web. These should be used like the Goleman model as a starting point for strategic discussion and not as an end point. They can give valuable examples of language. But the real expression of a competency should be from the viewpoint of where the organization is going strategically or what the risks are that it wants to avoid.

Potential Variants—Competency Benchmarking

There are a number of variants that are emerging in light of using competencies more strategically. One is to benchmark a group within an organization in relation to an external benchmark. While this has been a practice for some time, the demands of matching samples to match company strategy means that there has to be some refinement. For example, if you are benchmarking your sales force, it will not be sufficient to benchmark them against all sales forces.

Putting competencies at the heart of strategic discussions enables the talent manager to have a more profound business impact and competencies to endure in an organization.

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Chapter 5

Driving Expertise and Innovation Through Competency Development

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CREDIBLE TALENT MANAGEMENT PROFESSIONALS SHAPE THE GUIDING PRINCIPLES AND practices employed by organizations to attract, select, integrate, develop, engage, and deploy talent. They align those principles and practices with the organization's strategy so that the needs of the business are met now and in the future.

Competencies are useful in enabling all these talent management practices. They provide us with a clear and consistent vocabulary to use in our initiatives and in messages to inform and engage our key stakeholders—executive management, line management, high-potential employees, and, of course, the general employee population.

Competency Fundamentals

There is some variation in the way competencies have been defined (see, for example, Spencer and Spencer, 1993; Ulrich, Brockbank, Yeung, and Lake, 1995; and Lombardo and Eichinger, 2009), but there is general agreement that competencies (1) consist of skills and behaviors, (2) can be observed, and (3) contribute to success on the job. Since anything that can be observed can be measured, it follows that competencies are measurable. A competency is an observable, measurable behavior or skill that contributes to on-the-job success.

Competency definitions sometimes reference attitudes or other attributes in addition to skills and behaviors. It's important when considering these elements to limit them to attributes that can be learned. There are characteristics that can be observed and contribute to success but that are not learned. For example, there is evidence that tall people have career advantages and make more money (Judge, T., and Cable, D., 2004). Likewise, for people deemed attractive (Hamermesh, 2013). Since we assume that height and attractiveness can't be learned, we don't consider these to be competencies.

For our purposes, then, we define a competency as a *behavior or skill that can be observed, measured, and learned and that contributes to success on the job*. Examples include *Business Insight*, *Customer Focus*, and *Interpersonal Savvy*.[1] Competencies enable us to make meaningful contributions that support the organization. And, because competencies describe and shape our behavior, they to a large extent determine how we do our jobs, how we accomplish goals.

Numerous research studies have established the value of competencies. Competencies promote alignment of talent management practices that contributes to financial performance, as found in research by Becker and Huselid (1998) and Huselid, Becker, and Beatty (2005). A benchmarking study by the American Productivity and Quality Council in 2006 indicated that "best practice" organizations are more likely to have a behavioral competency model than other organizations. Other studies have shown that a competency-based executive assessment and selection process can generate as much as an additional $3,000 annual profit per candidate selected (Russell, 2001), that the application of competencies is positively correlated with job satisfaction (Towler and Britt, 2006), and that competencies are linked to increased profit and reduced turnover (Pluzdrak, 2007). Without claiming a cause-and-effect relationship, a study by Bersin (2007) showed correlation between selection and implementation of competencies in high- versus low-performing organizations as measured by financial performance and growth.

In spite of the evidence that competencies play an important role in driving organizational performance, there are criticisms. Some of these criticisms include:

- *A suboptimal level of specificity.* (for example, Harvey, 1999). The term "leadership," for instance, is too broad and ambiguous to be helpful as a competency. Conversely, when competencies are too specific, they can be considered limiting.
- *A focus on past performance.* Too frequently, competencies may address what has been historically important rather than what is important for future performance.
- *Resulting lack of diversity in the employee population.* When required competencies are emphasized in job descriptions and advertisements, it may discourage high-potential but inexperienced individuals from applying and thus yield a homogenous employee population that lacks breadth of skills and creativity (for example, Keenan, 2000).

Regardless of which criticisms are directed at competencies, those who level criticism believe that, in the final analysis, competencies don't deliver on the promise of enhancing individual and organizational performance. It is true that competencies are not a silver bullet. They do provide us with a language that's useful for describing performance, serve as a launching pad for effective coaching conversations, and provide a basis for focused development activities. But a language alone doesn't ensure that these things occur. Organizations that adopt competencies and then expect that development and enhanced performance will naturally and easily follow are likely to be disappointed. It takes know-how, effort, and resources to leverage competencies effectively.

It's helpful to differentiate competencies on several dimensions. Leadership competencies are those that are generalizable to all positions and include, for example, *Communicates Effectively*, *Manages Conflict*, and *Collaborates*. Leadership competencies apply at least to some degree to virtually all roles and position levels. Even a lighthouse keeper must occasionally interact with others and may need to demonstrate skill in managing conflict. Technical competencies, on the other hand, are those specifically related to a job function or targeted area of expertise. Most everyone requires some level of technical competence, but the importance of technical skills, in general, diminishes significantly as a person's career progresses. Even for new technical hires in engineering, finance, or IT, for instance, technical skills may account for no more than 25 percent of job performance (Schmidt and Hunter, 1998).

Often, people are hired primarily for their technical competence, but people are rarely dismissed for technical incompetence. Technical incompetence is relatively rare. It's the leadership competencies, or lack thereof, that more often get people into trouble. We terminate people, in general, because the way they do their job is unacceptable. They're unreliable. They don't get along. They violate explicit policies or implicit cultural norms. When this is the case, it may be that consideration of technical competencies was overemphasized at the expense of leadership competencies in the selection process.

Competencies can also be differentiated along the dimensions of developmental difficulty and supply in the workforce. Some competencies are much more difficult to develop than others. They take more time, more effort, and more practice. Developing competence in *Customer Focus* is likely to be relatively easy. Developing competence in *Situational Adaptability* is likely to be much more difficult. On a normative basis, some competencies are in relatively high supply in the workforce. That is, a large percentage of the population will be skilled. Other competencies are in low supply—a small percentage of the population will be skilled. Developmental difficulty and supply are not identical, but they are highly correlated. Easy-to-develop competencies are often in high supply, and difficult-to-develop competencies are more often in low supply.

It's useful to have normative data to help you understand difficulty and supply, but it's important to realize that individuals are unique. Individuals have their own particular aptitudes for various competencies and demonstrate different skill levels. All of us are a walking bundle of competencies, and our relative strengths and weaknesses give us a leadership texture. The question is, what is the right texture? For a given individual in a particular context, what is most important? Technical competencies clearly change as the nature of jobs change, but so does the importance of various leadership competencies change as careers progress. An early-career individual contributor probably needs to demonstrate skill in *Action Oriented* and less likely needs to demonstrate skill in *Strategic Mindset*. For a senior executive, this may be the reverse.

Organizations also vary in terms of what's important based on their industry, strategic intent, and maturity. An international, fast-moving consumer goods company likely needs a much higher supply of *Nimble Learning* and *Global Perspective* in the workforce than a domestic provider of building and grounds maintenance. Astute leaders will recognize when their business is ripe for disruption and take action to build skills such as *Cultivates Innovation* to promote their survival and success by engaging in their own disruption.

Competency Models and Profiles

Competency models are developed to define the unique combination of competencies that predicts success for a particular context—they may apply to an organizational context, a certain business function, or even to a specific individual. Competency models are given a variety of monikers, including success profiles, leadership models, competency frameworks, and so on. Regardless of the label, the intent is to provide focus on the set of competencies that enables selection, development, and deployment of talent for a particular context:

- Role-specific success profiles are typically created from job analyses and used to create job descriptions, guide competency-based interviews, suggest development plans, and inform workforce planning (Alliger, Beard, Bennett, Jr., and Colegrove, 2012).
- Position level-specific success profiles are valuable for career planning and workforce planning.
- Organization-level competency models describe the competencies that are required to execute the firm's strategy and support its culture.

An accurate success profile represents the ideal competency texture for a particular context. It describes those people who perform well and deliver results in that particular context, the people who are deemed competent. All else being equal, those who most closely mirror the texture described in the profile will be deemed most competent and model the behaviors that lead to success for themselves and for their organizations (Ruyle and Orr, 2011).

Research indicates that a structured competency-based interview process yields better selection results than other interview methods (Hallenbeck and Eichinger, 2006). The idea is to follow a script that asks candidates to speak to actual experience applying competencies rather than responding in hypotheticals. This process yields more consistent and accurate results when the correct competencies are selected for interviewing.

When identifying the competencies to be used in an interview context, it's not enough to just consider importance to the job. Supply and development difficulty should also be considered. There are competencies that may be critically important to the context but are in high supply (and likely also relatively easy to develop). These are price-of-admission competencies that, based on inferences made from normative data and/or preinterview screening, may be assumed to be adequate for the context. For instance, interviewing someone on *Drives Results* may be a waste of interview time since it's in high supply, easy to develop, and probably validated through preinterview screening.

So, what's the value of including a price-of-admission competency such as *Drives Results* in a success profile? This is a valid question and one that should be considered when creating the profile. One obvious reason is that people expect this competency to be on the list. A primary purpose of a competency profile is to provide focus, but even if competencies such as *Drive Results* and *Customer Focus* will not be the focus of selection or development, you may want to include them in the profile assuming that they are critical to performance in the context. Excluding them may send the wrong message to the target population.

In addition to price-of-admission competencies, there are other competencies that are essential to performance in the context and also are in short supply. Competitive-edge competencies are those that truly differentiate exemplary performers from the average, and it's important to identify and include competitive-edge competencies in the competency success profile.

Although competency success profiles are created to be unique to a specific context, the uniqueness comes primarily from the particular combination of competencies, not from the individual competencies that comprise the profile. There are several commercially available, research-based leadership competency models on the market. Because the good ones are based on research, they have a lot in common, and they describe the majority of skills that predict success for most contexts. Except for specific technical skills, it almost never makes sense to develop homegrown competencies from scratch. Utilizing a research-based commercially available competency set will save time and money and will provide normative data related to skill levels, supply in the workforce, and developmental difficulty. In addition, several vendors have a variety of tools based on their competencies, 360 assessment instruments, interview guides, and developmental materials, for instance.

Competencies are essential building blocks of performance, but performance takes more than competence. Employees who consistently deliver desired performance not only know what do to and how to do it (are competent), but they are also motivated—they willingly choose behaviors that result in desired achievement. Additionally, they benefit from an environment free from unnecessary hindrances to performance, an environment that provides them with needed information, resources, feedback, and physical and psychological safety.

Competencies in Performance, Learning, and Development

Performance problems resulting from a lack of knowledge and skills occur when the employee encounters something new—a new job, a new process, a new technology, even a new customer; dealing with just about anything new requires new knowledge and skills. Fortunately, people are amazing learning creatures and, in many jobs, are able to climb the learning curve pretty quickly even without intervention if they are motivated. The root cause of poor performance, then, is more likely to come from environmental hindrances or lack of willingness than from lack of know-how.

More often than not, the root cause of poor performance is the environment. Organizational leaders and managers are responsible for the performance environment. Managers provide direction, set the pace, provide the tools for the job, remove obstacles that aren't in the employee's control, reinforce good performance, and correct substandard performance. Many leadership competencies deal with skills that enable leaders to shape the performance environment. In that way, competencies do address all the root causes of substandard performance across the workforce including motivation and workplace environment issues.

Competencies, the building blocks of performance, can be measured and they can be learned. Learning means acquiring the ability to do something new, to do something that couldn't be done before the learning took place. Competencies are learned by degrees, and to the degree that you have learned a competency, you will have the ability to do something new, to behave in a different way, to deliver enhanced results.

Landmark research by the Center for Creative Leadership (McCall, Lombardo, and Morrison, 1988) identified the key role that experiences play in development. We learn most of what we need for success by doing a job. A developmental job will provide opportunities for practicing new skills, gaining new perspectives, and developing competence. Assigning employees to jobs in which they will learn key competencies and gain needed perspectives on the business is the single most powerful way we can develop employees.

Developmental jobs, of necessity, include a risk of failure. It's nearly impossible to learn anything without the opportunity to fail. Persevering through failures in order to learn leads to psychological rewards and engagement. Fear of failure and prolonged attempts to learn without signs of success are both psychologically punishing and lead to disengagement. A job that is appropriately challenging and provides opportunity to learn and master new skills is engaging. A job that provides little or no challenge and no opportunity for failure is not developmental and fails to engage (Ruyle, 2014).

Competencies Applied to Deployment and Readiness

Any job will be developmental for the right person at the right time, and making and executing sensible deployment decisions is at the crux of talent development. It's essential to develop a point of view and principles to guide talent deployment decisions and succession planning because these are the primary mechanisms to drive development and build a talent pipeline.

Succession planning is a process that takes a long-term view—it is much more than replacement planning. Succession planning is informed by insight into (1) the organization's inventory of current and future positions and their related competency requirements, and (2) the organization's inventory of talent and related competency development needs. The goal is to match talent with jobs that are appropriately developmental. When we say that a particular job requires a certain set of competencies for success, it's the same thing as saying that a particular job teaches that set of competencies.

Succession planning systematically and objectively evaluates jobs and talent and yields decisions to deploy key talent into suitable jobs to accomplish two objectives: (1) meet the current operating needs of the business, and (2) develop a robust talent pipeline to ensure that there are ready candidates to move into key positions in the future. Yet, these two objectives are at odds. If you want to be sure that jobs are done right, you'll select proven talent, people who've demonstrated they can do the job, people who are fully competent. On the other hand, if you're trying to aggressively develop people so they're ready for more responsible positions, you're going to put them into jobs in which they're going to be stretched and learn and grow. Remember, these two important principles: (1) we learn most of what we need for success by doing jobs, and (2) we don't learn anything unless we have an opportunity to fail.

That's the dilemma. If you deploy people into jobs in which they lack capability, they put the business at risk. And if you deploy people into jobs for which they're already fully capable, they don't have room to develop. Finding your way through this paradox is the crux of succession planning.

If development is a key consideration in deploying talent, it follows that competency assessment contributes to determination of readiness. In this regard, a common approach is to contrast the individual's current level of competency with the level required in the targeted role. Intuitively, this makes sense, and indeed, consideration of the gap between current and targeted competency level is a valid factor to consider. But readiness should just as importantly consider readiness to leave the current role. When individuals have climbed the learning curve and demonstrate competency in the current role, by that measure, they are ready to leave the role. For high-potential employees, in particular, it is a waste of development time when they remain in a role beyond the point at which they've largely mastered the competencies required of that role.

Developing Expertise to Drive Innovation

Competence implies good performance, solid performance, expected performance. Expertise is more. Expertise goes beyond good performance and yields unexpected and highly valuable results. Expertise indicates a level of competence that is rare, a level of competence that's critical to driving innovation. We assess and develop competencies because they are fundamental building blocks for performance, for delivering desired results. When desired results include breakthrough innovation, it becomes important to develop expertise.

To innovate is to create and implement something new and different. Innovation is a fresh approach to solving a problem and application of the solution. Innovation is both thinking and doing. Innovation is follow-through, the commercialization of a good idea. Innovation is vital because it's the only way you can reliably achieve profitable growth. And profitable growth is the chief objective of every CEO. You've got to have profit. That goes without saying. But profit is not enough. You also need growth. In a dynamic, competitive landscape, the company that's not growing is on its way to irrelevance.

There are really only two ways to grow. One, you can grab a bigger slice of the pie by stealing business from the competition. It's not easy. Two, you can grow the pie. Innovation in products and services may do both. Innovative products and services can grow the market. And innovative products and services can also snare your competitor's customers and enlarge your piece of the pie. In addition, process innovation can grow your profitability because it means you're running your business more effectively: less time, less scrap, less friction, less cash consumed, more cash remaining, more to the bottom line. That's wealth. And it's the job of the CEO to create wealth and to drive innovation.

We can all cite accidental discoveries that have launched groundbreaking innovations. But if we're serious about innovation, we can't wait for accidents. We have to be intentional about it, and that means we need experts. Experts have the ability to see anomalies that others don't. They see similarities others miss. They see connections that are invisible to nonexperts. They see patterns. And it's those patterns and connections that are the basis of innovation.

An important step to becoming intentional about innovation is to understand experts and the nature of expertise. Regarding experts, salient characteristics include these:

- *Experts are passionate about their discipline:* Don't take this statement lightly. Experts are more than highly interested in their area of knowledge. They are more than hobbyists. Experts are focused, obsessive, and single-minded in a way that's nearly incomprehensible to the nonexpert. They are driven to study, think, experiment, and develop their own unique point of view that is the result of their own work. Ownership of their expertise is important to them. They cultivate their passion and fiercely guard their expertise because they've invested so much in it. They own it. In fact, that largely explains why they are so passionate. Many people believe that passion precedes mastery, and it's true that some level of motivation is required to kick-start the work required to develop expertise, but the truth is that passion follows mastery. Mastery is highly rewarding, and passion builds as expertise builds.
- *Experts have a vast amount of experience:* The passion of experts leads them to spend more quality time working in their discipline. The 10,000-hour rule was identified in research years ago (Ericsson, Krampe, and Tesch-Romer, 1993) and popularized more recently by Malcolm Gladwell (2011). The point is that, although there are ways to accelerate and enhance the value of experience, there is really no way to get around the sizable investment in time required to develop expertise. True experts in any recognized discipline have paid their dues.
- *The nature of an expert's experience is different:* It's not just that experts have more experience. There's a qualitative difference in their experience. They practice differently. It's more focused, more intentional, more mindful. It leads the expert musician player to play the same four bars of difficult music over and over and over again until it's more than perfect, until it's natural. If you want to encourage

development of expertise, you need to provide space and opportunities to engage in that level of focused practice.

- *Experts' motives are different:* They are achievement-oriented, but the way they define achievement is different from the way others define it. More than anything else, being an expert motivates them. They love to have answers that others don't. They love to be in demand for what they know. That's not to say that experts don't have other motivators. They may value autonomy, money, power, security, or affiliation, for instance. But for many, the recognition of their expertise is a dominant motivator.

Regarding the nature of expertise, significant characteristics include these:

- *Deep expertise is rare:* Many people have developed considerable skills in several areas, but there are very few true experts. Deep experts stand head and shoulders above others in their command of their discipline. They have the passion, experience, and motivation discussed above, and that combination has created something truly special. It's easy to underestimate what it takes to develop authentic deep expertise and the value it provides. The contribution of a true expert may be worth the combined contribution of many others who are merely competent.
- *Expertise changes the way problems are solved:* It's often believed that experts find the best solutions because they're analytical and use a disciplined approach to problem solving, but that is not their defining characteristic (Klein, 1999; 2015). The experience of experts has provided them with deeper and broader knowledge about their discipline. They have accumulated many stored patterns that are the source of their intuition, and it's their intuition that makes them an expert and, in general, guides their problem solving. Intuition gives experts the ability to recognize patterns that are invisible to nonexperts. They draw inferences and make predictions based on those patterns in ways that are incomprehensible to nonexperts.
- *Expertise is transparent to the expert:* Experts typically have a high degree of unconscious competence. They don't know everything they know—they just know. They often can't explain how they see solutions that others miss. The answers just appear, almost magically. Their stored mental models and patterns are incredibly rich, and focused practice has carved deep neural networks that enable solutions to spring forth clearly and unobstructed.
- *To a large extent, expertise is tacit:* Because expertise is transparent to the expert, it's virtually impossible to articulate. Imagine that you pose a problem to experts and ask them to speak aloud as they solve the problem so you can understand how they reach a solution. As quickly as you can describe the problem, the expert's brain is scanning (probably subconsciously) patterns stored from experience and identifying a preferred solution. But since the request was to articulate the thought process, the expert will likely attempt to explain the intuited solution by implying some analysis or decision-making process that might sound good but that totally fails to capture what's really happened in the brain. This phenomenon presents a real dilemma to those of us who would like to capture, document, and disseminate expertise. If your organization develops the capability to transform the tacit to the explicit, you're on your way to building a capacity for innovation.
- *Multiplying and transferring expertise is difficult:* The transparency and tacit nature of expertise creates obvious problems in knowledge acquisition, but the problems don't stop there. Because expertise is rare and largely defines one's value to an organization, asking an expert to share expertise represents a threat of sorts. Many experts do rise above this and may even fail to recognize it, but the threat is there nonetheless and may lead experts to hesitate to share explicit heuristics.

Deep experts drive innovation and deserve special consideration for personal and career development. For true experts with potential to advance into significant leadership roles, the importance of leadership competencies is every bit as important as they are for high-potential generalists. Empirically tested best practices for supporting the careers of high-potential experts include:

- *Build depth in the discipline:* Unlike generalists who typically have a variety of roles in their careers, experts normally stay within a narrowly defined discipline and career track. They may take one or two short assignments outside of their function over the course of their career, but this is relatively rare for deep experts. The roles of deep experts are narrower, and the positions are also stickier. Experts move between roles less frequently than do generalists. Even those who are on a fast track for advancement will stay in their roles for longer time periods as a specialist. The high-potential generalist may be moving to a new position every two or three years, often making a lateral move. High-potential specialists may stay in a position for four or five years or even longer. The reason for this has less to do with the length of learning curves than it has to do with availability of roles within a function. But specialists still need to be aggressively developed in jobs just as generalists do, and high-potential specialists, like all true high potentials, will find that routine is one of the worst forms of hell. It takes creativity to keep high-potential specialists engaged when there are limited roles into which they can be deployed to be challenged and stretched. Consider how you can enrich jobs and continue to challenge them with develop-in-place projects and assignments that provide them opportunities to develop leadership competencies.

- *Develop teaching/coaching skills:* One of the best ways to stretch your technical experts is by assigning them coaching and teaching roles on an ad hoc basis. These roles can be formal or informal, but the important thing is to get them accustomed to sharing, to talking about the specifics of what they do. There's an adage that says you never really know something until you've taught it to someone else. Since expertise is transparent, experts find it very difficult to share their tacit heuristics. Sure, they may be able to talk about the general technology or discipline, the stuff typically found in related textbooks. But can they articulate their heuristics, their rules of thumb, their tricks of the trade? In this, they will most assuredly struggle, yet this is a primary way to grow and multiply organizational expertise. It's true that experts will often benefit from having a coach, especially a coach to help enhance their self-awareness and emotional intelligence, but don't neglect the opportunity to cast them in the role of a coach as a means of development.
- *Develop perspective:* Experts are focused on their discipline and stick to a narrow career path. That's not necessarily a problem and, in fact, is probably essential to the development of their expertise. The danger is that high-potential specialists develop tunnel vision to a point that they're unaware of business challenges, the competitive landscape, customer segments, and business fundamentals—many of the perspectives they'll need when they assume senior leadership roles. These valued employees need to develop perspective, but that can be done without their jumping to a different career track to do so. Again, you can get creative to provide them with perspective by sending them on customer visits, assigning them to serve on cross-functional project teams tasked with tackling organizational issues—any of a wide variety of activities that provide opportunity to learn how the business works and develop relationships outside of their discipline. Ensure that your experts are not insulated or isolated from the broader organization. Make sure that they have opportunity to develop a degree of perspective that will enhance their deep expertise.
- *Leverage external development opportunities:* Encourage your experts to participate in professional activities outside of the organization. Support them in those activities. Experts will find it stimulating and engaging to participate in professional societies and conferences. You want them to be more than passive attendees, though, and it's okay to push them outside of their comfort zone. They many need encouragement to make presentations, submit journal articles, lead panel discussions, and serve in leadership roles, but these kinds of professional activities can be highly developmental. Development occurs outside of the comfort zone, and experts will often find they are outside their comfort zone when asked to articulate their expertise with professional peers. Of course, proprietary expertise will be off limits, but that typically still leaves lots of latitude for technical specialists to make professional contributions. Those experts will often return from those experiences inspired and anxious to try something new that will spark innovation inside your organization.
- *Enhance self-awareness:* The first step to development is awareness. Without self-awareness, there may be little motivation to pursue development. Without self-awareness, development efforts may be misdirected and fail to address what's most important. We need awareness of our weaknesses, awareness of our preferences, and awareness of how others perceive us. We need to have our blind spots illuminated. Self-awareness is a critical component of emotional intelligence, which enables us to build effective relationships. It is critical for your experts. Becoming self-aware can be a painful process, and especially so for your deep experts. They are successful. They have confidence. Because they're experts, they may feel entitled and have outsized egos. Candid and constructive conversations with their boss should be a primary source of feedback that increases self-awareness. Psychometrically valid assessments and 360 degree instruments coupled with formal feedback and coaching can be invaluable in raising self-awareness.
- *Provide thematic development in emotional intelligence (EQ), a key metacompetency:* One of the competency issues addressed above is that of granularity, the issue of specificity. Competencies should be defined at an appropriate level of specificity to support coaching, development, selection—a level of specificity that best supports the intended application. It's possible to aggregate competencies into metacompetencies that are useful for describing thematic development or selection. Emotional intelligence is a metacompetency of particular importance to high-potential employees, including

high-potential specialists. The ability to manage emotions and build relationships is a strong predictor of success. And the lack of EQ is an even stronger predictor of derailment. When your experts disappoint you, it's frequently because of relationship problems resulting from a lack of EQ skills. High-potential specialists probably don't need much help developing their technical skills and expertise. They're capable and self-motivated learners when it concerns their area of interest. Developing relationship skills probably won't come so naturally.

- *Provide thematic development in learning agility:* Learning agility is the willingness and ability to apply what's learned in one situation to a different and challenging situation. Like emotional intelligence, learning agility is a metacompetency that's strongly influenced by personality traits. There's 30 years of research underpinning learning agility that indicates that this metacompetency accounts for a lot of the differences between highly successful and less successful leaders (De Meuse, Dai, Swisher, Eichinger, and Lombardo, 2012; Mitchinson, Gerard, Roloff, and Burke, 2012). In general, the need for learning agility increases as the role becomes less specialized and more generalized. Also, the need for learning agility increases as jobs become more complex, are more ambiguous, and are associated with more severe consequences. Those who fill the most senior roles in your organization benefit from a high degree of learning agility, even if they're deep experts.
- *Respect the importance of personal influence:* Personal influence is an engagement driver and is especially important for high-potential specialists. Recognition, awards, and monetary incentives all have their place, but since experts tend to be strongly motivated by being the expert, it's hard to top the recognition value of simply asking them for their opinion. Talk to your deep experts. Listen closely. Learn to know them personally. Consult them frequently so they have the opportunity to develop influencing skills. Help them enhance their credibility, gain access to key leaders, and develop their own unique voice in order to become truly influential.

Organizations will be well served by talent management professionals who integrate competency language, utilize competency models to provide focus for selection and development, and understand how deep expertise is developed and propagated in a feedback-rich learning environment.

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Note

1. All italicized competencies referenced in this chapter are from the Korn Ferry Leadership Architect™ Global Competency Framework (Korn Ferry, 2014), a research-based set of 38 competencies and 10 career stallers and stoppers. These competencies with their associated definitions and developmental remedies are the copyrighted and proprietary intellectual property of Korn Ferry. All rights are reserved.

Chapter 6

Competencies for the Future Workforce

Laci Loew, Founder and Principal
Laci Loew & Company, LLC

COMPETENCIES AS A BUSINESS LEVER FOR HIRING, DEVELOPMENT, MOBILITY, AND promotion started more than 40 years ago. Some of today's business leaders believe that competencies are passé. They describe competencies as "HR speak" with little to no business relevance, complicated, and complex to implement and maintain. Conversely, among leaders at top-performing organizations, there is almost unanimous agreement that knowing and developing the competencies of their workforces is essential for achieving today's business goals and sustaining tomorrow's performance.

Agreement, however, is not the same as making it happen, and in 2016, global leaders allocated just 4 percent of talent management budgets to managing critical competencies.[1] To take action, high-performing organizations use competency management to identify vital skills and knowledge, to assess candidates' and employees' performance against those competencies, to identify gaps between current and desired performance levels, to develop critical capabilities, and to inform future talent capability requirements and talent segments at risk. Their actions make a business difference. Highly competent, or capable, employees bring cost efficiencies, high levels of productivity, agile and quality work, innovative thinking, and inclusive thinking and behaviors. In fact, organizations with strong competency management rate 35 to 45 percent higher in business impact than those without.[2]

This chapter defines competencies, describes types of competencies, outlines challenges and benefits of competencies, explores the role of competencies in driving integrated talent management, discusses key practices for creating/implementing/maintaining a competency model to accelerate integrated talent management, and shares the business impact of high-performance competency management and its value in sustaining a culture of excellence.

Defining Competencies

Key definitions of competencies follow:

- *Competencies* are the measurable knowledge, skills, abilities, and behaviors that impact the success of employees and their organizations. Some common competencies are agility, business acumen, emotional intelligence, flexibility, inclusivity, and innovation.
- A *competency model* is a set of competencies typically, ideally 7 to 10, typically arranged by job families (e.g., project management) and roles (e.g., senior project manager, principal program manager) and carefully selected in alignment with expected achievement of business goals and strong employee performance. High-performance models include four types of competencies: core, leadership, functional, and career.
- *Competency management* is the set of management policies and practices that identify, align, and optimize the skills and competencies required of all job roles to deliver on an organization's business strategy. Competency management provides the foundation for managing strategic talent management practices such as workforce planning, talent recruiting and acquisition, employee development, and career progression, which collectively create the basis for creating and sustaining an optimized and

high-performance workforce. Competency management helps organizations be assured they have the right people with the right skills in the right jobs.

Competencies, competency models, and competency management are the root of successful talent management. They serve a critical role in defining the performance expectations for all people (regardless of role or level) and in shaping a work experience perpetually aligned with the organization's changing business strategy.

Types of Competencies

There are four types of competencies: organizational, functional, job, and leadership. A description of standards or factors that contribute toward success along with behavioral or organizational anchors that can be measured and assessed are found across all types. They differ in their level of specificity and applicability across job roles.

- *Organizational competencies* (also called core or core value competencies) are identified during the strategic planning process and usually stay fairly static. Common examples of organizational competencies are customer focus, inclusive, integrity, social responsibility, teamwork, and transparency. They typically represent a set of four to six and are required of all employees in the organization. See Figure 6.1 for 4 types of organizational competences.

Organization	Organizational Competencies
Apple	Innovation Quality Customer Service Marketing Simplicity
Google	Societal Education Environmental Care
Pepsi	Performance Orientation Teamwork
Toyota	Continuous Improvement Respect for People

Figure 6.1 Organizational Competencies at Iconic Organizations
Source: reference.com/business, forbes.com, pepsico.com/docs

- *Functional competencies* cascade from core competencies and describe specific skills and standards of performance needed by an individual working in a particular industry and are associated with specific work functions or business units (e.g., finance, R&D, IT, HR, sales). Common examples of functional competencies include risk analysis, data interpretation, and SQL programming. They can be technical or nontechnical (see Figure 6.2).

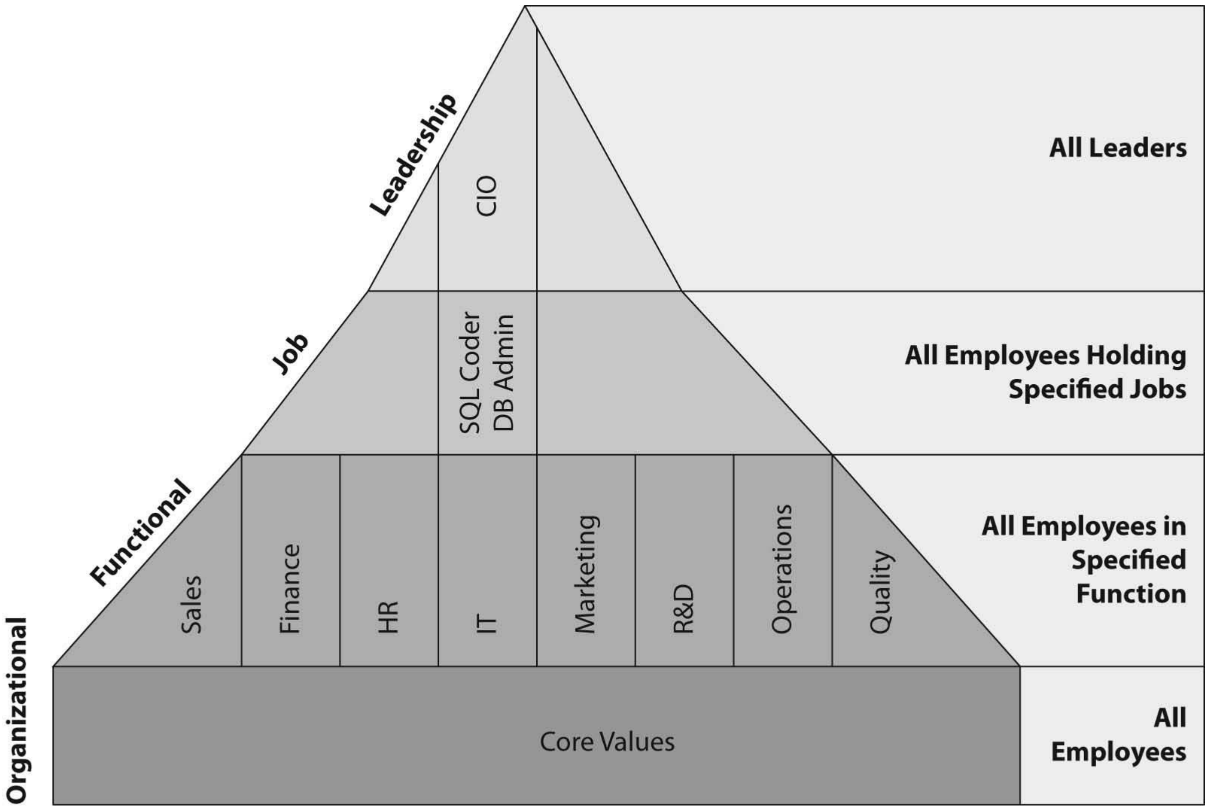

Figure 6.2 Four Types of Competencies
Source: 2016 Laci Loew & Company LLC

- *Job competencies* (also called occupational competencies) cascade from core and functional competencies and are anchored directly to the specific behaviors, skills, and knowledge required for exceptional performance in a specific job (e.g., financial analyst, researcher, Java coder, sales associate). Job competencies are more specific than functional competencies. Common examples of job competencies include transformation management, relationship management, and global acumen. They are used to encourage career planning.
- *Leadership competencies* describe the factors that lead to success for all supervisors, managers and leaders, senior staff, executives, and others who occupy management and leadership roles. Common examples of leadership competencies include influence, persuasion, and vision. They define what a strong leader "looks" like in line with the organization's culture and are used to guide the development of organizational leadership development programs and evaluate managers' and leaders' readiness to take on leadership roles.

10 Challenges of Competencies

Many of today's organizations can be characterized as distributed, matrix, and global, with functions that often operate autonomously in the absence of governance. These factors make efficient and effective identification, utilization, and implementation of competencies difficult. In fact, 69 percent of organizations surveyed said their competency management was only somewhat, or not at all, effective. Interviews and focus groups with executives and other business and HR leaders exposed the following ten competency challenges prevalent in many organizations:

- *Competency management is treated as an HR process, rather than a business imperative.* More than three-quarters of organizations identified better leader and employee performance as important or critical to the business. When asked about the single most important call to action to improve performance, interviewees said, "Tell employees what is expected of them to excel." Performance excellence, then, means clear communication of the competencies for which an employee is accountable. Yet more than 30 percent of organizations said they had not defined their critical competencies. Until competency management is revered as the business imperative it is, performance will continue to languish.

- *Identification of critical competencies can be difficult.* Without competency assessment to evaluate skill levels today and in the absence of talent analytics to predict the skills needed by the business going forward, organizations lack insight regarding what skills exist and are needed. Fifteen percent are still without a competency assessment strategy to evaluate current competencies and less than 1 percent of organizations have analytics expertise to forecast future-oriented essential skills.
- *Alignment of competency development with business goals is weak.* Sixty-one percent of organizations have only somewhat effectively, or not at all, identified critical talent segments and key job roles and the success criteria for those segments and roles. In the absence of these competency practices, it is no surprise that 72 percent of organizations indicate that employee and leader skill building is only somewhat, or not at all, focused on developing competencies requisite for achieving business goals.
- *Investment in competency management is deprioritized.* Every high-performance talent budget includes allocation for competency management. Yet, competency management investment has been on the decline and is well behind many other talent processes. In 2014, only 9 percent of talent management budgets were allocated to competency management. The following year, that number dropped two points, and last year the dip continued, placing competency management among the three least invested in talent processes.
- *Competency-based talent processes require upgrading stakeholders' capability.* Managers and other stakeholders involved in workforce planning activities, interviewing and hiring, succession planning, leadership development, and other talent processes need to be skilled in assessing, evaluating, and observing how well employees and candidates perform critical competencies. Organizations often have not provided adequate education to stakeholders, and stakeholders often do not prioritize time to understand the critical competencies required for future performance, to learn competency-based interviewing skills, to support competency-based development for their direct reports, or to review high-potential talent with regard to mission critical competencies.
- *Competencies are too often paper-based.* Automating competency management provides a means to create a standard approach to competency management across the enterprise and provides for integration of competencies among all talent processes. Further, it creates a real-time and predictive inventory of the capability of any workforce. By defining and automating job roles, critical competencies for job roles, and competency assessment, managers and employees can readily identify strengths and skill gaps for succession and career planning.

> *KEY POINT:* 30 percent of organizations manually manage competencies scratching out skill libraries on paper.[3]

- *Competency-based processes require a disciplined approach to job and work analyses.* HR practitioners must verify and validate the outcomes of the analyses and ensure their accuracy. Competency identification and assessment also demand commitment of time and other resources. Many organizations are unwilling or unable to invest in these activities disregarding the business value despite the business case for competencies.
- *Business-driven competency design requires a well-thought-out plan.* Leaders describe the challenges they have in creating a competency model that serves to accelerate individual and organizational performance. Too often, the approach is fragmented and haphazard with several starts and stops. We see little thought to how competencies will be used across talent processes, or if used, they are applied inconsistently. To make a business difference, competencies must be designed with business goals in mind and used as a common lexicon across the organization.
- *Launching competencies rarely goes smoothly.* There are several reasons that underscore competency launch difficulties. First, organizations include too many competencies in their competency model. A good rule is 7 to 10. Next, descriptions of competencies are too broad and do not serve individuals well for taking action via specific and expected behaviors. Finally, HR and business leaders do not take the necessary time to embed competencies consistently into all talent processes.
- *Competencies can be hard to maintain.* This challenge surfaces when organizations do not establish ongoing ownership and clear accountability to support competency applications in talent processes. Competency sustainability also falters when organizations over-engineer their approach to competency model development, fail to regularly monitor the competency model, or neglect to make changes to it in line with changing business priorities. And finally, if success metrics have not been predefined by business leaders, there is essentially no way to assess the business value of competencies.

10 Benefits of Competencies

Well-defined competencies are in line with an organization's business plan and are relevant to each person's role, level, and expected contribution to business priorities. When implemented properly, they can be used as a metric against which every individual and team can be selected, developed, and evaluated fairly and consistently. Moreover, they help translate each organization's unique values into expected, observable, and measurable behaviors.

The business value of competencies is well-evidenced. In one study, 89 percent of high-performance organizations defined competencies for critical talent segments and key job roles, versus 48 percent for all other organizations.[4] High-performance organizations describe the following benefits of effective and automated competency management:

- *Improved regulatory compliance.* Regular and documented assessment of critical competencies supports current and anticipated regulatory requirements.

> *KEY POINT:* Organizations performing competency management report 52 percent fewer safety and compliance incidents.[5]

- *Enriched understanding of expected behaviors and performance.* Of course, the quickest path to improving performance starts by knowing the target performance. Organizations that take the time to define the short list of competencies and expected proficiency level for each competency, by job role, essential for the achievement of business goals, have taken the first step toward giving employees and leaders the best shot at performance excellence.
- *Improved workforce planning.* Competency assessment results inform leadership about current and future workforce capability. To be assessed as competent, the employee must demonstrate the ability and experience to perform a job's specific tasks. Data and analytics about employees' skills and knowledge are essential for employee (individually and collectively) performance risk mitigation that leadership would otherwise be blind to.
- *Optimized development.* High-performance organizations realize that organizational success depends on how capable their people are. They also recognize that formal training does not necessarily equip employees with the appropriate skills to thrive in the workplace. This is where competency management and competency-based development come in. Competency-based development is created around the competency standards that have been identified for a specific role in an organization.
- *Healthy talent pipeline.* Automated competency management enables on-demand information about employees' and leaders' competency mastery and readiness to move into next-level or other critical roles. In this way, organizations are better prepared with development and succession planning and, as a result, yield healthier talent pipelines regardless of business cycle or economic conditions.
- *Improved operational efficiencies.* Competency management automation facilitates business-driven learning and development, eliminates non-value-added training, highlights strengths to be further developed, flags critical skill gaps for mitigation, and generates higher levels of employee and leader satisfaction with their overall experience with the organization.
- *Enhanced management visibility.* Results of competency assessments provide the data and analytics managers need about workers' skills and knowledge to make informed learning and leadership development decisions, manage employee performance, and enhance decision making related to new investments and needs for training to close critical skill gaps.
- *Improved candidate selection.* Competency-based recruitment plays an important role in selecting individuals who possess characteristics that might be difficult, if not impossible, to acquire by training or other development efforts. A competency-based interviewing protocol encourages hiring managers and other decision makers to clarify the verifiable, measurable results they expect from successful performers before a selection decision is made. That makes selection methods more effective, which reduces turnover, since those hired are more likely to do well in jobs or work roles that are matched to their existing and potential competencies.
- *Improved organizational performance.* Improved processes for managing workforce competency drive higher performance by eliminating inefficiencies, assimilating functional teams, and eliminating redundant work and rework caused by human error that result from skill and knowledge gaps.

- *Integrated talent management.* Serving as the standard for expected performance by job role, competency management becomes the standard by which the highest-performing organizations talk about, manage, and sustain all phases of the employee lifecycle (from talent acquisition to development, to retention and reward) in an integrated fashion. Integrated, versus disparate, talent processes drive better business results.

> *KEY POINT:* Organizations reporting high levels of integration among talent processes (workforce planning and analytics, talent acquisition, performance management, learning and leadership development, succession and career management, and diversity and inclusion) are more likely to also report being in the top quartile of important business and talent outcomes (meet or exceed financial targets, rate of innovation, response agility to anticipate change).[6]

Competencies Drive Integrated Talent Management

Competencies are at the center of integrated talent management. Integrated talent management provides leadership with clarity on talent capability and capacity, skill and performance risks in critical talent segments and key job roles, and the data and analytics to inform better hiring decisions, create targeted development plans for closing skill gaps, and identify high-potential hires and accelerate their strengths.

Some common applications of competencies in talent processes are:

- *Inclusion and culture:* Decisions about whom to hire, develop, mobilize, promote, and exit from the organization can be influenced by personal bias and made irrespective of diversity of thought. Competencies help make an organization's workplace bias-free, environment inclusive, and culture fluent. For example, competencies allow identification, observation, and measurement of the attitude and behaviors requisite to acting with empathy or demonstrating inclusivity.
- *Workforce planning and talent analytics:* The primary reason for doing workforce planning is economics. If done well, workforce planning prevents talent capacity and capability surpluses and shortages, increases productivity, reduces labor costs, and significantly cuts time-to-market because the right number of people can be placed in the right roles at the right time with the right skills. Workforce planning identifies requisite workforce competencies needed not only in the present but also in the future, and competency assessment informs leadership about the supply, or lack thereof, of requisite competencies in the workforce.
- *Talent acquisition:* Using competencies during recruitment, interviewing, and selection provide a foundation for consistent hiring practices thus reducing recruiters' and hiring managers' subjective decisions. Organizations with a consistent and bias-free process are more likely to rate their talent acquisition function and practices as effective and efficient, when it comes to filling key positions quickly and effectively, than are those without a competency-based approach. Further, a competency-based approach to hiring provides for a job-relevant, skills-based, and legally defensible selection process.
- *Learning and leadership development:* At an individual level, competencies provide the desired behaviors to inform employees' learning plans to develop specific behaviors and skills required for success in a job. At an organizational level, core development programs for leaders at each level (e.g., new supervisor boot camp, managing for performance, leading to excellence, executive immersion) can be more effectively planned and implemented when specific behaviors and skills required for success in a particular leader segment can be identified. Organizations that identify competency-based job and leader segment success profiles are 4.8 times more likely to rate themselves in the top 10 percent of their competitors based on the quality of their employee and leadership talent.[7]

> *EXAMPLE OF EXCELLENCE:* Zurich Insurance Group assessed the proficiency gaps held by current employees to identify specific training plans, which led to a 189-percent increase in learning engagement.

- *Performance management:* By leveraging competencies, managers and employees gain a common language that spells out the *hows* (behaviors) in performance plans. Without competencies, there is a tendency for performance plans to rely too heavily on the *whats* (outcomes/objectives), without providing behavioral guidance. Competencies help shape performance plans so that employees understand the specific behaviors they need to exhibit in achieving results. A competency model is useful in assessing employees' behaviors and their completion of objections and offering feedback throughout the performance cycle that is rooted in comparing their behaviors to the behavioral descriptions the model offers for each competency.
- *Career and succession management:* By identifying and communicating the critical competencies associated with success at a job level, organizations can establish more strategic career planning and management systems for employees. Managers can help their employees identify career progression for future-focused development that will better prepare them for their next move. Similarly, competencies offer clarity to HR leaders, business leaders, and other senior leaders as they build high-potential talent pools to meet business needs. Competencies provide performance standards against which high-potential employees can be consistently and fairly assessed across the organization. With the intelligence that comes from high-potential competency assessment, organizations can pinpoint skill and knowledge gaps before pipelines are thin and negatively impact business results. See Table 6.1 for benefits of integrating competencies into your talent process.

Talent Process	Benefits of Integrating Competencies Into Talent Process
Inclusion and culture	• Reinforces criticality of cultural fluency • Guides inclusive decision making and actions • Assesses gaps in inclusive capabilities and behaviors
Workforce planning and talent analytics	• Identifies supply and demand • Diagnoses employees development needs • Informs of skill gaps in critical talent segments and key job roles
Talent acquisition	• Provides for consistency during interviewing • Guides candidate assessment • Enables assessment of candidates for cultural fit
Learning and leadership development	• Diagnoses employees' leader development needs • Informs content for core leader development programs • Provides alignment of development with business goals
Performance management	• Establishes performance expectations • Assesses skill gaps • Provides the "how to" for achieving for performance goals
Career and succession management	• Assesses readiness for next roles • Diagnoses development needs • Illustrates career progression opportunities

Table 6.1 Benefits of Integrating Competencies Into Talent Processes

Source: 2016 Laci Loew and Company LLC

Three benefits of integrating competencies into each area of talent management are:

- Provides a *consistent language* to talk about talent: Competencies become the conduit that links behavioral-based interviews (during the hiring process), with developmental opportunities (during learning, leadership, and high-potential development), with progression and mobility (during career management). In other words, the competencies on which we base hiring decisions should be the same competencies we use to select development solutions and the same competencies that we discuss when reviewing talent for placement into high-potential pools or making career moves.
- Identifies *success behaviors* to improve performance: Competencies are the currency that enables organizations to identify skills and behaviors essential for successful execution of job responsibilities.

This insight enables organizations to align skills with business objectives and performance expectations.
- Guides *talent decisions and actions* in line with business and career goals: Competencies provide a road map for employees to navigate performance expectations and guide career choices. Competencies assist managers in discussing performance and eligibility for future roles. Competencies inform organizations about performance requirements essential for business results today and tomorrow.

High-performance organizations use competency models as the foundation for integrating competencies into talent processes.

Creating, Implementing, and Maintaining a Competency Model

There is a perception that competency management is just plain difficult to execute. In fact, there is a practical and scalable approach to building and implementing a competency model. Figure 6.3 provides a picture of what the process looks like:

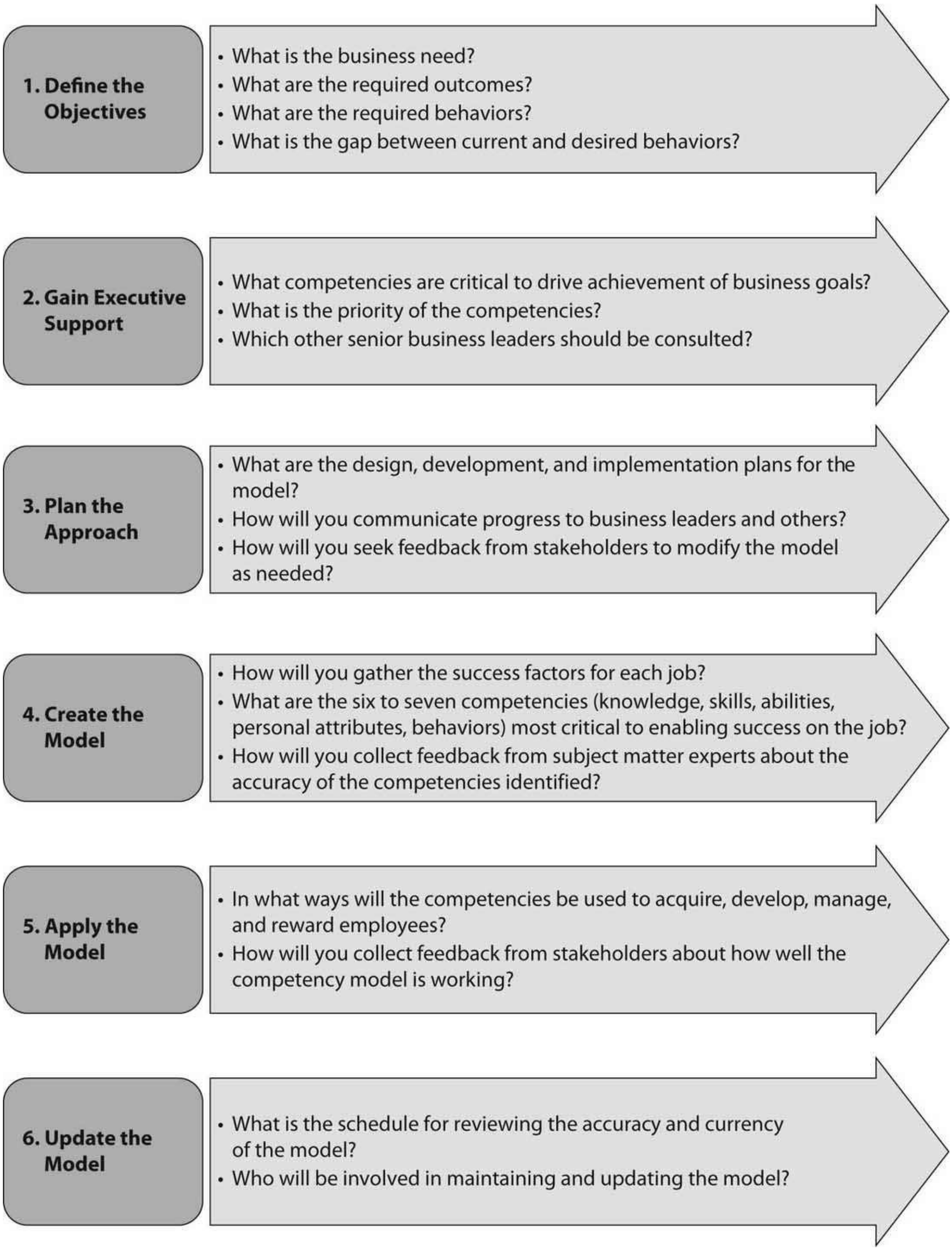

Figure 6.3 Six Steps to Rolling Out a Competency Model
Source: 2016 Laci Loew & Company LLC

Step 1: Define the Objectives

During this initial step, HR and business leaders examine the business strategy, including current and future business goals, agree upon required talent outcomes, align on the skills/knowledge/behaviors/personal attributes (competencies) required for achieving business goals and talent outcomes, and define the gaps between current competencies and those necessary to achieve goals and outcomes.

If the creation, or an update, of a competency model is required, the analysis should expose the breadth of the need. For example, do organizational competencies need to be refreshed because the organization has adopted a new core value around inclusivity? Or do leadership competencies need to be updated because the organization has recently expanded globally? Or do the quality function competencies need to be updated because a new federal regulation recently was approved?

Step 2: Gain Executive Support

Assuming a competency model needs to be defined for the first time or an existing model needs to be refreshed, the next step is to engage executives and other senior business leaders to get clear on the linkages between organizational and functional business strategies and the competencies necessary to support them.

Further, ensuring that executives have a sound understanding of the need for competencies to support business strategies prompts their willingness to serve as a champion of the business value of competencies.

And finally, executive support enables managers and leaders to prioritize competency management as an integral element of their responsibilities.

Step 3: Plan the Approach

In this step, create the plan for designing, developing, and rolling out the competency model. The SWAT team assigned to this activity should be limited to five or six and should represent HR leaders, business leaders, and line managers as well as consultants/experts within the functions (or external). The SWAT team has the following responsibilities:

- Define the success factors for critical talent segments and key job roles.
- Define the extent of changes that need to be made to the current competency model, or create the business case to develop a model in the absence of an existing one.
- Analyze costs and benefits of updating, or creating, a model.
- Define the design, development, and implementation process.
- Develop learning resources to support communication, implementation, and ongoing use of the model.
- Oversee initial implementation of the model.
- Monitor the progress and report on the impact of the model to stakeholders regularly.
- Create a process for regular review of the model to keep in line with changing business goals.
- Act as champions of the model across the organization and within the functions.

Step 4: Create the Model

After planning the approach for rolling out the competency model, the SWAT team is ready to create the competency model. The team has three choices:

- Outsource development of a model.
- Customize an off-the-shelf model.
- Build a model in-house.

Figure 6.4 outlines 6 steps to rolling out a competency model.

Method 1 Outsource Development of Model	Method 2 Customize an Off-the-Shelf Model	Method 3 Build a Model In-House
• Consultant builds the business case • Consultant collects and analyzes qualitative and quantitative data necessary to inform the model • Consultant establishes validity of the model • Consultant helps to integrate competencies into talent processes	• Behavioral definitions are already vetted by other organizations • Already validated by an external expert • Applicable to a wide variety of jobs and organizations • Access to manager and stakeholder training tools and resources	• Helps with securing immediate buy-in from executives and other senior leaders • Focuses on behaviors most relevant for organization's business goals • Can yield a richer, more relevant model • Reflects organizational culture

Figure 6.4 Benefits Short—List of Competency Model Development Methods

Source: 2015 Bersin by Deloitte

The choice most likely is a determined by the amount of time available to develop the model, budget, in-house expertise, and bias your organization may have for "doing our own work" versus "getting external expert help." Regardless of the choice ultimately selected, the SWAT team is accountable for ensuring the alignment of the competency model to:

- The organization's business needs and goals
- Job success factors

This means selecting only those competencies that are business critical. In addition to core competencies, high-performance organizations keep the number of competencies for each job function to a minimum—typically six or seven.

As the SWAT team identifies competencies that will comprise the model and defines the behavioral anchors and expected levels of proficiency by job role and level for each behavior,[8] team members should seek regular feedback from subject-matter experts and other internal stakeholders including the executive team, of course.

As this activity draws to a close, the competency model is drafted, and the SWAT team has executive buy-in to move ahead with the application of the model to talent processes (e.g., workforce planning and analytics, talent acquisition, learning and leadership development, etc.). Below is a sample competency model that might be drafted for the human resources function.

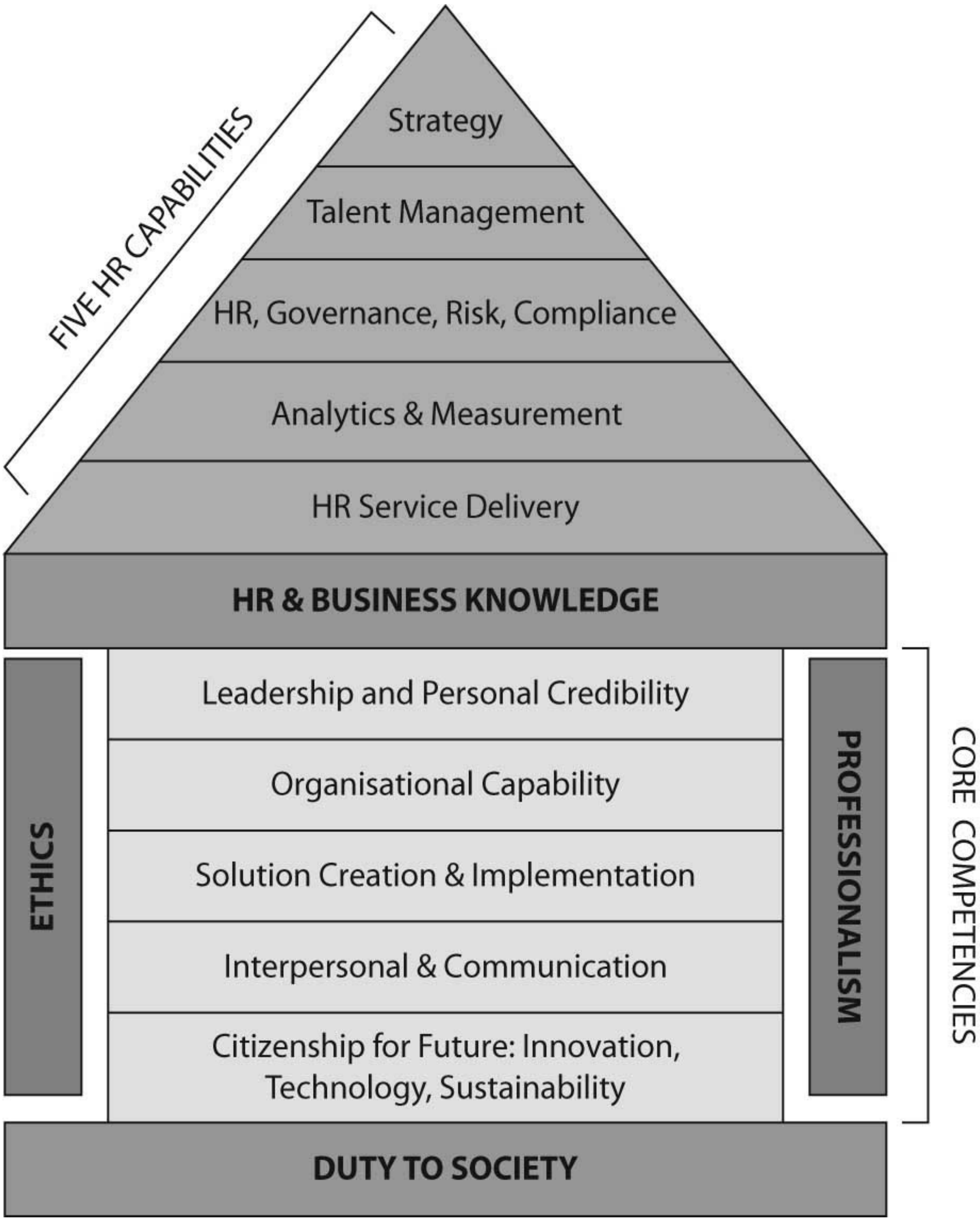

Figure 6.5 Sample Competency Model for the HR Function
Source: 2016 Society for Industrial and Organizational Psychology of South Africa

Step 5: Apply the Model

To roll out the model, the SWAT team should follow change management protocol and include model validation, clear and transparent stakeholder communication, risk mitigation, pilot testing, clear linkage of the model to business goals, and documentation and development of key activities in each talent process in alignment with the model including but not necessarily limited to:

- Development of behavioral-based interviewing guides
- Creation of learning plan templates

- Identification of development resources
- Development of core leadership development solutions
- Career paths

As with any significant implementation, challenges should be expected. The following activities are key in providing for a smooth roll-out process: provide training for all stakeholders, involve executives and other senior business leaders early and often to govern the design/development/roll-out of the model, select metrics for success before roll-out, measure frequently, and report progress.

Step 6: Update the Model

Competency model implementation does not end with a successful roll-out. To keep the model fresh and aligned with changing business goals, the SWAT team sets the process for regularly collecting feedback from stakeholders about the linkage between the competency model and talent activities and the model's business impact on talent outcomes and business results. When updating the model, the SWAT team should consider stakeholders' feedback to the following questions:

- What has worked well and not so well about the competency model?
- What needs to be changed in our current model?
- What is the priority of the changes you are proposing?
- Assuming we make these changes, how will we know whether the revised/updated model will be successful?

The SWAT team should ensure that the model is revisited and updated at least as frequently as the organization reviews and updates its business strategy and goals.

A well-designed and implemented model that is regularly reviewed for its alignment with business goals can have immense impact on accelerating the achievement of business goals.

The Business Impact of High-Performance Competency Management

Despite the disregard of many leaders for competency management, it continues as the nucleus of every high-performance talent strategy and culture of excellence. In fact, organizations with strong competency management rate on average 40 percent higher in business impact than those without it and are two times more likely to meet or exceed financial targets. Also organizations reporting high levels of competency integration into each of the talent processes reported being in the top quartile of important business and talent outcomes.

Summary

Competencies, competency models, and competency management can be used to:

- Attract top talent
- Set clear performance expectations
- Enable talent mobility to support succession and career goals
- Foster performance excellence
- Improve business results through linkage across all talent processes

Competencies should be applied strategically and consistently across talent practices and consistently applied in all talent decisions and actions. In so doing, leadership embeds competencies in the culture of the organization. A competency-based culture drives achievement of the most critical business needs and enables realization of business results that far supersede what would have been in the absence of competencies.

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Chapter 7

Understanding How to Use Performance Management for Organization Success

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Overview

Nearly every organization has a rubric that a key goal is achieving a performance culture. While "performance culture" is rarely defined, most employees and outside observers have a general idea of what ir means (a general commitment to high individual, group, and organizational performance), but a lack of specifics means that few organizations ever achieve that culture or the levels of performance desired. It is important to start out with a good understanding of what performance is and the levels at which it occurs before considering how to manage it.

This chapter covers the following:

1. The nature of performance and performance management.
2. The role of performance management in human capital development.
3. Linking organizational and individual performance through the performance management system.
4. Performance metrics and how to improve them.
5. Performance as a key variable in useful analytics.

Performance occurs at three levels: individual, group, and organizational. While some might want to differentiate small group, unit, division, or other group levels, the analysis does not change sufficiently to make it worthwhile. Group is anything larger than one individual and smaller than the entire organization. Performance can't exist in a vacuum. The issue is "performance for what"; that is, how is the performance under consideration related to larger goals of what we wish to achieve? In most cases, it is the performance of the total organization that provides the answer to "what."

Individual Performance

Performance at the individual level is a function of ability, effort, and context. The individual must first of all have the ability required to do a task or job well. Second, the individual must make the right effort to do the task or job well. Until recently, this was considered sufficient for high performance. More recently, the context in which performance occurs has been recognized as a critical issue. The most highly skilled worker making an outstanding effort can't succeed if required tools or materials are lacking, if the manager orders her to do something incorrectly, if coworkers sabotage his efforts, and so on.

Note also that there is an optimal level of performance in many jobs, and performance that is too high may be as bad as performance that is too low. Consider an employee on an assembly line. If performance is too low, the line slows down, and in process inventory builds up in front of the worker's position. If the worker performs at too high a level, pressure is placed on workers in the previous section of the line to produce more, and in process inventory builds up immediately after the worker. Optimal performance is that which keeps the line moving steadily and is coordinated with others workers' output on the line.

More generally, optimal performance at the individual level is that which provides the best support for the unit meeting its goals for the performance period. This is the context that answers the question "performance for what." While performance management generally focuses on defining performance criteria and making sure low performance is noted and improved, attention needs also to be placed on performance that is too high for the given context.

Group Performance

It is possible for the performance of a group to be simply an aggregate of the performance of the individuals making up the group. A group of sales personnel each of whom operates entirely independently could constitute such a group. Today, however, most workers are increasingly interdependent and, when this is the case, group performance is more (or less) than the performance of individuals in the group.

This matters because it changes performance criteria for members of the group. Performance criteria for a worker who is entirely independent focus on the skills required by the specific tasks assigned. When work is interdependent, performance criteria related to intragroup and intergroup process become critical. Performance criteria related to process may become the most important criteria in evaluating an individual's performance, and the higher in the organization the employee is the more important these criteria are. One error made by many organizations in their human capital development programs is to focus on "hard" job-related skills and not paying enough attention to "soft" or process-related skills.

Groups have "performance for what" issues, but group performance is more likely to be addressed in strategies. A marketing/sales department charged with increasing market share to 30 percent knows the overall standard all other group and individual performance criteria must be derived from and support. The larger the group, or the more critical the group is to meeting organizational goals set out in the business plan, the more likely the "performance for what" question is to have clear answers.

Just as with individuals, groups have optimal performance levels. A sales group that sells more product than the production unit can produce has not helped the organization. Production groups that pressure sales groups to set unrealistically high sales quotas to allow more efficient use of manufacturing facilities similarly are not helping the organization. Group performance needs to be coordinated with other groups if the larger unit is to perform well. Intergroup competition is rarely helpful to larger unit success.

Organization Performance

Organization performance criteria are usually the most explicitly defined. Criteria may be found in the mission statement, statements of organizational strategy, cultural definitions, "rules of the road," the business plan, and other statements of long- and short-range organizational purpose. While organizations have a good deal of leeway in selecting performance criteria, they are required to maintain alignment across those criteria.

Performance Management

Performance management (PM) is the system used by organizations to tie individual, group, and organizational performance together (Banks and May, 1999; DeNisi and Smith, 2014). It consists of three stages: performance planning, performance period (during which observation and positive and corrective feedback take place), and periodic summary appraisals (which start the planning process for the next period).

Performance Planning

Performance planning should be constructed in such a way that any manager can do it, regardless of management style or skills. Better managers involve the employee collaboratively in all phases of the PM process, but the system is designed so that even control oriented managers can follow the process. The manager must first define what performance means in the case of a specific direct report. Ideally, this definition is based on a cascade of goals beginning with the organizational mission, strategy to achieve that mission, and operating plan with the immediate source being what the manager is expected to accomplish during the period and ending with the direct report's expected part of that accomplishment (Evans, 2001). This part of the process is what ties individual performance to corporate strategy; without it performance metrics are largely meaningless.

The manager must then move from the general to the specific, usually expressed in terms of desired outcomes. This constitutes the performance dimensions for the direct report. Where outcomes are difficult to observe or measure, behaviors that are expected to lead to desired outcomes are added. For each performance dimension, the manager must develop specific outcomes and behaviors that will be used to measure the direct report's performance. It should be noted that performance dimensions, measures, and standards are unique to each position, although attempts should be made to develop common standards for employees with identical job titles.

When performance dimensions, measures, and standards have been developed, the manager must communicate them to the direct report. The manager must make certain that the direct report understands measures and standards. The manager then gets the direct report to set goals for performance for the coming year (Locke and Latham, 1990). Note that goals and standards are not the same. The standard is what is expected of a fully job-knowledgeable employee who exerts normal effort. One purpose of performance management is to get employees to set stretch goals, to be better than the standard. At the end of the goal-setting discussion, the direct report has agreed on some performance level as a goal. The set of performance measures, with standards and goals, becomes the performance "contract" for the period. It is subject to change as external contexts and company strategy and needs change, but such changes need to be discussed with the direct report as they occur.

Performance Period

During the performance period, the manager uses the performance contract as a benchmark for observing the direct report. When above-standard performance is observed, the standard becomes the basis for positive feedback. A typical positive feedback incident would include (1) what the manager has observed, (2) how it relates to the performance contract, (3) the level of performance observed in the eyes of the manager, and likely outcomes for the organization and the employee if this level of performance is continued.

Positive feedback is one of the most powerful reinforcements available to the manager; it is an important management tool and should follow the general reinforcement rules. It should occur immediately after the high performance is observed, and a variable ratio schedule should be followed. A variable ratio reinforcement schedule is one when reinforcement is given not every time, or every fifth time (for example), but when reinforcement occurs on average every fifth time (for example). This schedule has been shown to be the most powerful in the continuance of the behavior being reinforced.

When performance is below standard or below the goal set by the direct report, corrective feedback is used, again relying on the standard and on the goal set as the benchmarks for the observed performance. When discussion about performance is couched in terms of known measures, standards, and goals performance, feedback can be objective, and it is less likely to be seen as criticism of character. The direct report is not bad per se but is simply not performing at the agreed-on level on one or more measures.

Periodic Performance Summary

At some point, a summary of performance during the period is provided to the direct report. In most organizations, this is an annual event, but some organizations have quarterly or semiannual performance summaries. At this point, the manager provides a summary of how the direct report has done on each performance measure and whether standards have been met. Consequences of achieving various performance levels are communicated, and planning for the next period's performance begins. If PM has been done correctly, the summary appraisal should have no surprises for the direct report.

The Role of Performance Management in Human Capital Development

Performance management systems play a critical part in human capital in two different ways. First, they provide a benchmark for the manager and the direct report on how the direct report is doing in the current job and on the performance issues that need developmental work. The second role for the performance management system in human capital development (and perhaps the more important one) is to help the direct report understand the strengths and weaknesses she may have, not with respect to the current job, but for some higher-level job to which she aspires.

Human Capital Development in the Current Job

The difference between observed performance and performance standards of the current job provide an obvious base for human capital development programs. There may be a lack of job-related skills that can be treated by training. Low ratings on job-specific hard skills may suggest fairly specific skill-remediation training, particularly for individual contributors. Low ratings indicative of a lack of job-relevant soft skills may suggest more general approaches such as training in communication or leadership, mentoring by a more senior employee who exhibits high levels of the skill in question, or other interventions such as temporary job assignments, working on a task force, or a greater emphasis on behavioral feedback.

Human Capital Development as Career Development

While correction of performance problems in the current job is important, developmental activities related to preparation for future jobs is critical if the organization is to maintain bench strength to be able to fill open jobs internally. The emphasis is on what developmental achievements are needed by employees before they are qualified for a promotion to the next step in a career path. In this case, employees may be outstanding performers in the current job but it is clear to management that they would not perform well in the next job because of a lack of hard or soft skills not required in the current job but critical to performance in the next job.

A typical example is an individual contributor in a technical field (programmer, engineer, scientist) who is a high performer in his current job but lacks the requisite interpersonal and leadership skills to be promoted into management. Job-specific skills are something the employee has in abundance and, because of the nature of the job, no real interpersonal skills are required. Neither the manager of this employee nor anyone else may care about the lack of interpersonal skills because technical performance is so good. If the employee were to be promoted into a supervisory or management position, those skills would become very important, perhaps more important than technical skills.

The performance management system plays a role in developing human capital not for the current job, but for jobs further along in the career path. Managers should consider how their direct reports would be evaluated on the key performance criteria of their probable next job. Developmental activities can then be set up for each employee that focus on improvement against future job performance criteria to prepare that employee for career growth.

Linking Organizational and Individual Performance Through the Performance Management System

The answer to the "performance for what" question is almost always organizational performance. Getting from organizational performance to individual performance is not always easy, but the performance management system is the way it can be done. Employees in a very small professional organization may be aware of the organization's purpose, vision, strategy, and business plan for the current year. This is unlikely to be the case in a larger organization.

The organization has freedom in determining its purpose and vision, and to some extent in choosing a strategy to get there. Everything else (from the organization's current business plan to individual performance criteria) need to be driven by the strategy. Thus performance management and particularly performance planning (at the group and individual level) need to be closely related to organizational strategy in a top-down process. Group and individual performance criteria should be a function of the strategy, and performance standards should be a function of the business plan.

As senior managers determine the performance criteria and standards for their direct reports, so too should those reports think in terms of the performance criteria on which they will be judged and the standards by which they will be judged and determine criteria and standards for their direct reports reflecting their own. It is not only goals which should cascade down through the organization but criteria and standards as well. The performance management process, when done well, serves to coordinate performance across levels of the hierarchy, and helps ensure that employees are not working at cross-purposes with each other.

Performance Metrics and How to Improve Them

Most managers can tell you if an employee is a high performer, a good performer, or a poor performer. When asked how they know, it becomes more difficult for them. The key reason for this is that without a good performance system in place (and a commitment at all levels of the organization to use it) performance metrics are flawed. A second reason is the different uses to which performance data are put. For compensation purposes (and especially for merit pay), for example, the need is for a measure that summarizes the overall performance of an employee, and to do so in a manner that a "5" market researcher is equivalent to a "5" computer programmer or secretary or production executive.

All performance metrics involve management judgment, whether outcomes or behaviors. While we generally think of outcomes as objective, definitions usually are shaped by value judgments. Some managers will argue that even behavioral criteria are objective. Some examples will illustrate the way in which performance criteria are subjective.

Outcome Criteria

Outcome criteria are preferred by most managers because of their "objectivity." In fact the definition of an outcome criterion is generally subjective. Consider the number of ways unit profit can be defined. We could use managerial or financial accounting practices to measure profit, getting very different results. An old saying states, "If you want to have real power, be the person who distributes overhead across units."

The devil really is in the details of outcome criteria. The key to good outcome criteria is thoughtful analysis of what the manager wants to capture and then see if any currently available accounting, financial, production, or other measures exists that capture the manager's idea of performance. All too often, managers start with available measures and then define performance in those terms. It is also useful to recognize the subjectivity that comes in the choice of outcome measures used and their definitions.

Behavioral Criteria

Behavioral criteria are inherently judgmental. We interpret an observed behavior in light of our own experience and personality. Even the behaviors we notice (as opposed to ignore) are shaped by personality and experience. When we use a behavior as a performance criterion, we do so because we expect that behavior to lead to an outcome of interest. Thus we may expect a scientist to interact with other scientists on a team because we believe that such interaction (and the interplay of ideas that occurs) leads to more innovation. We may even consider how many times interaction takes place when we determine standards on this behavioral criterion. There are two sources of subjectivity here. The first is that there is one and only one way to increase innovation (in terms of interaction); many outcomes can be achieved through multiple behavioral patterns.

The second issue arises in the different kinds of interaction that can take place. It would be hard to argue that interaction in which no discussion of current projects takes place, but instead focuses on office politics or political events, has a lot of impact on innovation.

The point is not that behavioral criteria are flawed. It just means that we have to recognize their limitations and ways in which they may be gamed. In some online courses, part of the grade is a function of the number of times a student makes comments in a chat room on various topics. Some students will explode the chat room with, "I really agree with Mary on that," or other similar statements that show no indication of having read about the topic or understanding it.

For behavioral criteria to be useful requires a good understanding on the part of the manager about the relationship of behaviors to outcomes. While this does not require the manager to be an academic researcher, it does suggest that managers understand the business processes they control well enough (and to have enough applicable experience) to be fairly sure that certain behaviors on the part of an employee are more likely to result in desired outcomes than would alternate behaviors.

Regardless of their flaws, both outcome and behavioral measures are what we have for performance measures. Managers and their direct reports can get a good feel for how accurately these measures capture performance and, when embedded in a performance management system, behavioral and outcome measures serve the purpose.

Performance as a Key Variable in Useful Analytics

Talk of "big data" and analytics (data analysis) has come to HRM, and it is hard to find a professional journal in HRM that does not have a story on at least one of these topics in most issues. Very few organizations have enough employees to engage in studies using big data in the traditional sense, although employee data can certainly be sufficiently complex to qualify. On the other hand, many organizations have been doing complex analysis of data concerning their human resources for some time. Some HRM scholars consider HR analytics "old wine in new bottles," but still welcome the increased attention to solving HRM problems using sophisticated statistical and other analyses, such as AI (artificial intelligence).

Performance measures developed in the performance management process are key in many of these analyses and are generally used (1) as the dependent variable in a study (which variables lead to predict, explain, modify, or otherwise impact performance) or (2) as one of a set of independent variables (what does performance, perhaps along with other variables, lead to, predict, modify, or otherwise impact one or more variables of interest). Keep in mind that performance measures used in analyses could be a single overall measure of performance (measured on a scale of one to five) or measures of an individual performance factor (such as units produced or organizational citizenship).

Performance as a Dependent Variable

Most traditional research in HRM has focused on performance as a dependent variable. Almost all selection research focuses on various predictors (tests, interview scores, and biographical data, for example) to see which (or more realistically, which combinations) best predict performance. Organizations increasingly are using more data from the human resource information system (HRIS) to see what may lead to performance.

As an example, a company might look at different recruiters and see which ones were more successful in persuading more employees to join the organization, got employees who later had high performance, got employees who were less likely to quit, and so on. They would then see what differentiated these more successful recruiters from others. An organization might like to do a similar analysis to determine what the characteristics of managers were whose direct reports were able to advance in the organization compared to managers whose direct reports plateaued early.

Performance is also the dependent variable in much training effectiveness analysis. If two communication training programs are given, is there a significant difference in scores on performance criteria related to communication for employees who took one program when compared to those who took the other?

Such studies may help refine performance criteria as well. A study by Pursell, Dossett, and Latham (1980) recounts a comparison of the predictive validity of a set of criteria thought to be related to performance when performance was measured using traditional trait-related scales (very low validity demonstrated) and when performance was measured under a new appraisal system focusing on key behaviors (high validity demonstrated).

Performance as an Independent Variable

Performance has been less used as an independent variable, except in limited cases and in more cases as a moderator variable. For example, a company might want to know whether high performers are more likely to voluntarily turn over than average or low performers. In this case, performance is the independent variable. Similarly, a company might want to know whether wage differences from the market rate lead to higher voluntary turnover, but may think wage differences from the market rate increase voluntary turnover among those with high performance but not those with average or low performance. In this case, performance drives the relationship between discrepancies in wages and the market rate and voluntary turnover. Studies using performance as the independent variable might examine the effect of individual performance on group performance outcomes or on organizational outcomes of interest.

Many academic researchers use performance in their studies of human resource management and organizational behavior. Organizations have come late to the game of human resource analytics and are likely to duplicate work that has already been done in the academic domain. Alliance with academic researchers or the hiring of those who have been trained as PhD programmers will increase the value of analyses done.

Performance data are critical to the organization if it wishes to achieve its strategies. The performance management system links individuals to the goals of the organization and is critical to development of the human capital of employees. It is key to acquiring the human capital the organization needs. Analysis of human resource systems and relations rely on performance data for insight on improvements to optimize the human capital of the organization. Performance management systems are key to organizational success.

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Chapter 8

Using Performance Appraisals to Drive Organization Success

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PERFORMANCE APPRAISALS CONTINUE TO BE THE SCORNED AND NEGLECTED STEPCHILD of the talent management universe. It's rare for a month to go by without seeing an article about a company announcing that it has abolished its conventional performance appraisal system or has come up with a cool new social-media-driven approach to performance evaluation. Scathing critiques asserting the worthlessness of the entire performance appraisal procedure itself are commonplace.

But since the 1950s General Electric, as it is still used today, developed performance appraisal. Performance appraisals have remained the most universally accepted business process in organizations worldwide. Of all management processes, probably only budgeting is used more frequently than performance appraisals.

"Despite all the buzz about abolishing formal performance reviews, the vast majority of organizations continue to employ traditional vehicles for sharing performance-related information," a 2016 study by *Human Resource Executive* magazine reported. And a similar WorldatWork investigation of "cutting-edge performance management practices"—things like ratingless reviews and crowd-sourced feedback—discovered that in spite of all the chatter, these new techniques are being used by only a tiny fraction of large organizations.

Why Do We Still Do Performance Appraisals?

Performance appraisals must offer some compelling benefits for them to successfully have weathered decades of reports of their demise and scores of attempts to eliminate them. It turns out that in spite of the awkwardness almost everyone feels about the annual evaluation process, the conventional appraisal procedure serves a vital and irreplaceable function. First, an effective performance appraisal system is the primary mechanism that allows organizations to make critically important decisions correctly. Decisions like:

- How should rewards be allocated? Who should get a big raise; who should get nothing?
- When a vacancy arises, who should be tapped for promotion? Do we have excellent candidates ready and waiting, or do we have to go outside to get the required talent?
- What's the depth of our talent pool? Do we have the people we need to meet the demands of the future?
- What is the relative strength of talent across our organization? Are there pockets of excellence and pockets of mediocrity within the company?
- Who are our best performers, the people who are outstanding performers in their present positions with the potential to take on more demanding roles? Do we have retention strategies in place to ensure that they don't leave?
- Who are our worst performers and what do we need to do about them? Which ones can we salvage? Which ones should be cut loose?

If the performance appraisal system isn't intelligently designed and skillfully used, the answers to these

If the performance appraisal system isn't intelligently designed and skillfully used, the answers to these critical questions will of course be wrong. Worse, the questions won't even be asked, and the organization will stumble toward achieving its strategic goals without knowing whether it has the talent it needs to ensure their achievement.

Equally important, performance appraisals ensure that every person who works for an organization gets the answers to two vital questions: (1) What do you expect of me? and (2) How am I doing at meeting your expectations? The first question is answered at the start of the year, when managers discuss goals and expected behaviors and key job responsibilities with each member of the team. The second question is answered at the end of the year when managers evaluate each individual's performance and then discuss that evaluation with the employee.

Finally, if nothing else, a formal annual performance appraisal process ensures that at least yearly every employee will have the opportunity to sit down with his or her supervisor and discuss that supervisor's opinion about just how well the individual is performing.

Only a small number of companies have eliminated their formal performance appraisal mechanisms, and a large number of these seem to have discovered that things only seem to get worse. Goal setting doesn't happen. Managers hold even fewer feedback discussions without the goal of a formal requirement. Employees don't know where they stand. Salary administration gets more cumbersome. Companies discover that they've ended up with a bunch of itty-bitty unconnected systems that joined together look just like the conventional appraisal process they thought they got rid of.

So if traditional performance appraisals still rule—and they do—and if everyone's pretty much still using the same techniques and procedures that they have used for years—and they do—what's new in performance management? Two things: A demand for more frequent conversations and a focus on ensuring that appraisal results are accurate. In this chapter, we first explore the features that are common to almost every performance appraisal system. We then review the techniques that companies and skilled managers are using to provide more frequent and more meaningful ongoing feedback to supplement the information and assessments provided in the annual review. Finally, we'll examine "calibration"—the procedure almost all companies that are committed to excellence in performance management have adopted to ensure that appraisal results are accurate.

What's Universal in Performance Appraisals?

If one were to look over the performance appraisal forms in use today by a few dozen of the largest organizations in the United States, the immediate reaction might be that there's nothing in common at all. The forms of no two companies look alike. Some use a Microsoft Word template; some use online systems, and some employ incredibly complex web-based approaches. But underlying the surface variations are some striking similarities in the way companies approach the business of performance appraisal. For example:

- *Performance appraisal itself is common.* First, the fact is that almost all companies have performance appraisal systems. The larger the organization, the higher the probability that it will have a formal procedure that requires that (1) competencies be discussed and goals and objectives be set at the start of the year, (2) coaching and feedback be provided during the year, and (3) an assessment of the individual's performance using a rating scale coupled with a discussion of that assessment be conducted at the year's end. In fact, in a survey of 350 U.S. organizations, the consulting firm Mercer found that setting individual goals, requiring a year-end review discussion, and providing an overall performance rating were the three most common performance management practices used by 90 percent or more of all companies.
- *Goal-setting.* Goal setting is a prime component in virtually all performance appraisal systems. A study by Distinguished Professor Edward E. Lawler III of USC and Michael McDermott of Capital One found that not only did more than four out of five organizations use performance-driven goals, this technique of having an individual's goals driven by business strategy makes it clear what differentiates individuals from a performance point of view, and thereby increases accuracy in rating.
- *Rating scales.* Almost all companies use a rating scale (93 percent according to one study). Most use a five-level rating scale, and the use of a five-level scale is increasing. This is as true overseas as it is in the United States—in a survey of 22 of the largest companies in Indonesia conducted three years ago, all but four used a five-level rating scale.
- *Competencies.* The use of competencies is also a common practice. Eighty-three percent of organizations today have identified the behavioral expectations they have of organization members, either company-wide or for specific types of jobs, and studies have found that using competencies

drives better performance. Organizations that make excellent use of competencies are four times more likely to have a performance-driven culture.

- *Results and behaviors.* Providing for the assessment of both goals (results) and competencies (behaviors) in a performance appraisal system is common and makes sense. Human performance is a function of two components: *results* (what the individual accomplished) and *behaviors* (how the employee went about doing the job). However, these two dimensions of job performance—results and behaviors—are only loosely correlated. It's possible for an individual to produce great results with poor behaviors (the used-car salesman who always makes his quota but does so by lying to customers, rolling back odometers, and stealing other salesmen's leads). It's equally possible to have an individual whose behavior is sterling but who simply doesn't accomplish much. Both dimensions are vital for genuinely effective performance, so it's no wonder that the use of both competencies and goal-setting are commonplace performance appraisal mechanisms.
- *Other common practices.* There are other practices frequently used in performance appraisal—techniques employed by a majority of companies in their performance appraisal systems. These include incorporating development planning into the overall performance appraisal process, providing that the performance appraisal document and the rating proposed by a manager be reviewed by at least one higher-level individual before the performance appraisal becomes official and is reviewed with the employee, providing some mechanism for the employee's own perceptions of the quality of his or her performance to be included, and ensuring that there is a fairly tight linkage between the performance appraisal rating a person gets and the size of his or her merit increase.

Finally, what is common in performance appraisal is a fairly universal feeling among all system users—appraisers, appraisees, senior executives, and HR professionals—that we still have a way to go before we've "got it right." Depending on the study, the primary area that falls short is managers' ability to coach subordinates; the linkage between performance appraisal and other HR systems like development planning, compensation, and succession planning; and the alignment between performance appraisal and business strategy.

More Frequent Performance Conversations

What both the Human Resource Executive and the WorldatWork studies of performance appraisal mentioned at the start of this chapter reported is that companies today are putting far more emphasis on increasing both the quality and the frequency of the feedback that managers are providing their troops. "Boosting dialogue" tops the list of the elements that companies in both research studies consider most important. Seventy-seven percent of HR executives in the organizations studied report that encouraging more frequent conversations (i.e., weekly or monthly) versus annual review is their top performance management priority.

More frequent coaching makes sense. It lowers the fear factor people may experience during the annual appraisal discussion if that's the only time the boss talks about performance. Goals and priorities change more rapidly than a once-a-year appraisal can accommodate. Coaching can redirect efforts toward revised priorities. Learning from experience is enhanced when the analysis follows the event quickly. People are more likely to ask for help if guidance is offered in informal reviews. And coaching that is focused on reinforcing effective performance is particularly valuable. The best confirmation that companies are on the right track in demanding more frequent coaching sessions comes from Google's "Project Oxygen," the company's rigorous, data-based multiyear analysis of what it is that makes great managers great. Technical expertise made a difference, Google found, but just a small one. The single most important differentiator between good and great managers was, "Be a good coach."

Coaching occurs in two quite different configurations. One is *calendar-driven coaching*, the familiar process that occurs not only in formal performance appraisal review meetings, but also in scheduled sessions that effective managers hold at the close of every significant project or at planned intervals during the course of a year. The other type of coaching, *event-driven coaching*, may not even be considered as a "coaching session." These are the spontaneous conversations that happen informally without structured planning. Increasing the frequency and enhancing the quality of these two forms of coaching can have a significant impact on an individual's performance.

Calendar-Driven Coaching

Increasing the number of scheduled discussions will positively impact both employee performance and the perception of managerial effectiveness. But these scheduled sessions need to be more than quick, "How's it going?" chats to have a high payoff. Calendar-driven, scheduled sessions:

- Occur in formal, structured, sit-down meetings.
- Are initiated, led, and controlled by the manager.
- Typically cover work conducted over time, not a singular event or project.
- Provide a forum for discussion and review of multiple events and competencies.

Finally, both parties clearly recognize these sessions as a "feedback event."

While coaching sessions can be scheduled at any time, it's easiest to make them part of the ongoing routine by setting a date for a status update at the close of the annual performance discussion. Three months is a reasonable time frame. Writing down a specific date on each person's calendar increases the probability that the meeting will happen. It's certainly possible that the date may later have to be moved because of schedule conflicts. After that first session, set a date for the next follow-up.

In conducting a calendar-driven coaching session, start by asking, "What are the major events that have taken place since the last time we got together?" Then spend the next 30–45 minutes reviewing the major activities that occurred—successes, problems, and lessons learned. "Do more/do less/continue" is a simple, workable agenda.

Making the employee a joint partner can enhance the effectiveness of these planned coaching sessions. A few days before the scheduled session, ask the individual to e-mail you a list of the things he or she would like to cover in the meeting.

Event-Driven Coaching

The other kind of coaching session is sparked not by a date on the calendar, but arises spontaneously after some specific incident or activity. Event-driven coaching:

- Occurs whenever discussion is needed or an opportunity arises.
- Focuses on a discrete incident.
- Is triggered by a "teachable moment."
- Is a routine part of day-to-day work.
- Relies on two-way accountability and interaction. (Either the boss or the subordinate can initiate the coaching discussion.)
- May not even be recognized as a "feedback session."

The best technique for structuring these planned coaching sessions may be the after-action review (AAR) procedure developed by the U.S. Army in the 1990s. AAR is a structured review or debriefing process for analyzing what happened, why it happened, and how it can be done better by the participants and those responsible for the project or event. To make after-action reviews work in a business context, focus on discussing a couple of key questions while everything's fresh in peoples' minds:

- What was supposed to happen?
- What did happen?
- What are some improvements?
- What are some sustainments?
- What can be done to improve the training next time?

In practice, the manager can hold a highly effective event-driven coaching session while she and a team member are walking down the hall after a significant meeting just ended. The coaching session starts with the manager's informal question ...

- "How did you think the meeting went?"
- "What was your reaction to Marie's recommendation?"
- "Which parts of your presentation do you think went best?"

Then the manager provides her own insights—agreements, disagreements, and "in additions." Finally, point out what the individual should take from the discussion. Make sure that the core message is clearly heard.

Whether the coaching session is one that's been on the calendar for months or arises spontaneously on a chance encounter, remember that people want feedback; more frequent is better than less, effectiveness is contingent on a strong manager-employee relationship, and—most of all—trust determines success.

A significant increase in the amount of coaching and feedback organization members receive both in planned and spontaneous coaching sessions is one of the two primary changes that distinguish performance appraisals today compared with the way the procedure operated a dozen or more years ago. The other change is development of a mechanism to ensure that performance appraisal ratings are accurate. That mechanism is called, "calibration."

Calibration

A great part of the discomfort associated with performance appraisals results from the belief that a manager's evaluation of the performance of a subordinate, and specifically the appraisal rating, may not be correct. People in organizations take for granted that it's appropriate to measure and evaluate the quality of the goods and services they produce, as well as the goods and services they receive. But there's usually a significant discomfort when they're asked to evaluate the quality of an employee's performance and then reduce that assessment to a number on a five-level rating scale. Complaints of unfairness abound. Both assessors and assessees feel awkward.

This discomfort about inaccurate performance assessments is understandable. From our school days, we all remember teachers who were easy graders and those who were hard graders. We knew that we had to work far harder to get a B from Professor Smith than we did to get an A from Professor Jones. While we may accept the easy grader/hard grader phenomenon as an inescapable fact of life in school, we're extremely uncomfortable when the same phenomenon shows up in our company's performance appraisal system and the annual rating we get.

And for good reason. Ratings impact all areas of organizational life. A high rating generates a bigger pay increase. It increases the chance for being picked for a plum assignment. With a high rating, we'll be more likely to be assigned to a fast-track development program and to be the one chosen for an advantageous promotion.

And a low rating—even if undeserved—will be likely to result in fewer career opportunities and smaller raises. We'll face a greater probability of being passed over when promotional opportunities arise, and perhaps finding our name heading the list when a reduction in force is necessary.

It's vital that performance appraisals accurately reflect the quality of the individual's performance. It's essential for ratings to be accurate. But every so often, they're not.

So what's to be done to ensure that the judgments of managers, reflected in their performance appraisal, are accurate? How can a company eliminate the tough grader/easy grader problem and ensure that its managers are applying similar standards when the time for formal evaluation rolls around? How can line and HR executives, looking at the talent pool across an organization, be sure that that a three rating in accounting represents the same quality of performance as a three in marketing or in manufacturing or in sales?

The Development of a Calibration Procedure

About 10 years ago a small number of companies started using a process for ensuring accuracy and consistency of their performance appraisals. They called their new procedure "calibration," or "leveling," or "rater reliability," or some other term. But whatever the name, the process was essentially the same. This new process involved scheduling a meeting with a group of managers, all of whom supervise employees in reasonably comparable jobs. The meeting is held after the managers have drafted their performance appraisals and have come up with their planned ratings, but before they discuss those appraisals with their subordinates and the appraisals become official.

These calibration meetings typically involve a group of three to eight supervisors, each of whom supervises a group of three to a dozen direct reports (although the procedure can be adjusted to accommodate significantly larger groups). A calibration session most commonly begins with the managers' posting the names of each of their subordinates on the wall, along with the appraisal rating they're planning to give that employee. When all names are posted and everyone has looked over the planned appraisal ratings, the calibration discussion begins.

"You're proposing to rate Sam a five," one manager might say to another. "I know Sam. He's nice guy. I've worked with him on a couple of projects. But I don't see him as a five. How did you come up with that rating?"

Sam's manager responds. She explains the standards she used to determine her rating. She provides specific examples to support why Sam's performance is worthy of a five and to justify her planned appraisal rating. Other managers chime in, either giving additional examples to support Sam's top-of-the-scale rating or questioning whether the top rating is appropriate based on the quality of Sam's work that they've observed over the course of the year.

During the meeting, the planned rating of every employee under review is discussed. Every rating is either confirmed or revised. Some ratings go up when managers—the tough graders—discover that they've set the performance bar far higher than their colleagues have, or new information comes up that the employee's immediate supervisor didn't know. Other managers lower their planned rating of an individual when the feedback from their peer managers gives them information about a subordinate's performance that they were unaware of. The meeting closes when everyone agrees that they have applied uniform standards and that the performance appraisal rating for everyone whose performance has been reviewed during the meeting is correct.

Ground Rules

The effectiveness of a calibration session depends on all the managers operating in good faith and adhering to common "ground rules." These agreed-upon procedures include such items as:

- *Discussion focus:* In determining the appropriateness of the specific rating to be assigned, participants will restrict themselves to discussing the quality of the individual's performance during the appraisal period against goals/results and behaviors/competencies. Other issues (such as long-term potential, unique talents, previous successes or failures, improvement over previous years, job criticality, length of service, equal employment opportunity factors, skills other than those required to successfully perform the position, flight risk, education, and other factors that are not directly related to the specific quality of the individual's performance) will not be considered in determining the performance appraisal rating.
- *Openness:* Leaders must be open to changing the rating of an employee when the information provided indicates that a change is appropriate.
- *Consensus:* Decisions will be made by consensus and not by voting. "Consensus" means that all voices and perspectives have been heard. The decision is one that most feel comfortable with and all can live with and support.
- *Confidentiality:* All participants must maintain confidentiality. No disclosure of any comments made by oneself or others about individuals whose performance is reviewed in a performance calibration session is permitted.
- *Accountability and ownership:* Leaders will demonstrate ownership of calibration session results. Specifically this means taking responsibility and ownership of performance appraisal ratings, and not saying things like, "I had you rated higher but the calibration group forced me to lower your rating."

A final "ground rule"—and perhaps the one that is most difficult for managers who are participating in a calibration meeting for the first time to internalize—is to understand that the participants are not there to advocate or promote high ratings for the members of their team. Their mission is to ensure that all performance appraisal ratings are based on an individual's actual performance, regardless of what department the person works in or who her boss is. Here's an excerpt from an FAQ document that was distributed to all appraisers and nonsupervisory employees as part of the explanation of the company's rationale for introducing calibration as one of its performance management procedures. It communicates the company's expectation bluntly:

> This process requires managers to compare the performance of their people against those of other leaders. Can I expect that my manager will "go to bat" for me in the calibration session?

No. The leader's role in a calibration session is not to attempt to get her people a high performance appraisal rating or to "go to bat" for her people. Her job is to make sure that she has evaluated her people accurately and applied tough, demanding, and fair standards to their performance. Her job is to carefully consider the accuracy of the initial appraisal rating, recommend that individuals on the cusp of one rating be moved to a higher or lower rating when that seems appropriate, explain to her colleagues the rationale for the revised appraisal ratings, listen carefully to and be guided by the input from her colleagues, and expand her understanding of the performance of her subordinates through learning from the experience of others who have worked with them.

Voting is inappropriate. Back room coalitions and mutual back-scratching arrangements are unethical.

One senior executive who attended a large number of calibration sessions to demonstrate top management's commitment to the process opened each session by handing each participant a baseball cap with the company's logo on it. He insisted that each of them put the cap on and wear it throughout the session, explaining, "When you look around the room during this session, I want to make sure that all of you know that you are wearing the company hat in making your decisions."

Pros and Cons of Calibration

While calibration offers enormous benefits, nothing comes without a price. There are both obvious and subtle advantages to incorporating a calibration procedure in an organization's performance management approach, as well as some cautions to be aware of:

Obvious Payoffs

- More accurate appraisal ratings.
- More accurate personnel decisions based on those ratings.

More Subtle

- Exposes talented employees to a larger number of senior leaders.
- Makes it easier for managers to deliver honest but negative performance appraisals.
- Provides senior managers with useful data on the ability of junior managers to spot and champion talent.

Obvious Concerns

- Adds an additional layer of administrative burden.
- Some managers don't like having to defend their performance appraisal judgments before their peers.

More Subtle Potential Issues

- Glib appraisers may be able to assert excessive influence over the group's decision making.
- Weak managers may give the process only lip service just to get the meeting over.
- Spineless supervisors may blame the process for forcing them to deliver less-than-stellar appraisals to subordinates.

Calibration, a process that was virtually unknown a dozen years ago, is now one of the most common and accepted procedures in organizations' performance management palette.

The Bottom Line

Performance appraisals—the conventional, annual appraisals that we've used for years—are not going away. There is no better way of getting the information a company needs to make important, valid personnel decisions than through the data that a well-constructed, well-executed performance appraisal procedure generates. And there's no more effective way to ensure that all employees know exactly what is expected of them and how they're doing in meeting those expectations.

Two significant developments are emerging, however. With the increasing rapidity of business life today, coaching can't wait for an annual review. Companies are insisting that coaching be provided in a more frequent, more effective manner. And given the importance of the information generated by a company's performance appraisal process on its business decisions, companies are implementing calibration procedures to ensure accuracy and a level playing field.

Chapter 9

Big Five Performance Management: A Quantum Leap in Employee Performance Appraisal

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MANY WELL-KNOWN ORGANIZATIONS (KIMBERLY-CLARK, NETFLIX, AMAZON, and Microsoft, et al.) have recently announced creative process improvements ranging from the total elimination of performance appraisals to changing or eliminating the scoring and ranking components of the process. Some have added a monthly or quarterly "check-in" component designed to increase the frequency, and therefore the supposed quality, of manager/employee performance communication. These efforts may tend to improve the quantity of feedback the employee receives but can fall short in making the process more effective and efficient. Why? Most of these improvements fail to consider any significant changes to the most onerous and tedious component of the process; the year-end, annual employee appraisal. In spite of all the efforts to improve the traditional process, most managers remain saddled with the responsibility of preparing and processing one final, year-at-a-glance, "for your personnel file," type of document that must be approved by the manager's manager, filtered through human resources, and then discussed and sometimes negotiated with the employee. How meaningful or effective is this process? There are a significant number of challenges.

25 Challenges of the Traditional Employee Appraisal

Following is a list of the 25 challenges related to traditional employee appraisals:

1. Rater bias. Some managers grade more easily than others.
2. Time required; excessive for most managers.
3. Lost opportunities created by time requirement.
4. Systems, software, training costs.
5. Poor ROI—cost of process, organizational benefit.
6. Corporate goals may not translate to individual goals.
7. Speed of change can neutralize annual goals.
8. Employees want constant/instant feedback.
9. Metrics alone do not tell the full story.
10. Metrics can be manipulated by employees.
11. Metrics can be manipulated by managers.
12. Midyear "check-ins" do not happen.
13. Focus on compliance, not coaching.
14. December struggle to remember the year.
15. Employee "concerned" as appraisal time approaches.
16. Managers focus on most recent events.
17. "Soft" feedback from managers.

18. “Soft” appraisals can create liability.
19. Employees can feel “dumped on” at year end.
20. Not employee driven, even with self-assessment.
21. Hierarchy breakdown. Does the CEO participate?
22. Employees and managers are skeptical.
23. Budget, not performance, drives pay.
24. When scored, no one enjoys being “average.”
25. Harms morale.

The Case for Change

Deloitte, a public accounting firm, conducted research that showed that its 55,000 employees were spending 2 million hours per year on the process.[1] On average, that computes to over 36 hours per year, per employee. Deloitte determined that the return on that time and expense investment was unacceptable. Only 42 percent of its executives believed in any correlation between the appraisal process and increased employee engagement, improved performance, or an enhanced bottom line. Like others, Deloitte has made some adjustments to its process but at last report the company continues to complete an annual, year-end, summary process.

Many human resources and C-suite executives in other companies seem to accept the inevitability of the annual appraisal without question. The vice president of HR of one of the largest online dating services in the world, when asked about its program’s effectiveness responded, “While I don’t have any data, per se, I know my people and our process works well here.” Why do so many organizations spend so much time tracking and improving efficiency and profitability in other operational units while HR, at least on this issue, seems to get a “pass”?

How much time are employees spending on this process? The research is sparse but telling. The least amount of documented hours is found on the Society for Human Resources Management website, showing managers spending as little as 11 hours per year on the process. The general manager of the Fluor Corporation’s Houston office tracked his actual hours spent on the process in 2008 and found that he invested 400 hours in the process. A huge time commitment to the traditional process was orally validated by the online dating service HR executive mentioned above. An engineering manager at NASA who was interviewed said that he is responsible for producing formal appraisals for 43 different employees, three times per year and that he is not allowed to delegate any of that responsibility. He estimates that he spends 1,000 hours on the process each year; almost one-half of his occupational life!

While these numbers may at first seem unrealistically large, caution is advised. HR professionals will want to take ownership of this issue, conducting research to ensure an adequate return on investment for their organization. Everyone in the HR world seems to be concerned with “big data.” It is difficult to imagine any bigger data than knowing the total amount of time, money, and resources organizations are committing to the appraisal process and, of course, the dollar value of the benefits or outcomes. HR executives who determine that, “the juice is not worth the squeeze,” will want to consider creative alternatives like Big Five Performance Management.

Origins of Big Five Performance Management

Big Five is based on actions that occurred at JPMorgan Chase Bank. In the mid-1980s, a sudden change in governmental regulation caused an overnight influx of new commercial, high-volume, real estate mortgage clients. This rapid acceleration of the corporate “battle rhythm” rendered annual employee appraisals ineffective, as daily and weekly survival of employees and the overall business became priorities in this chaotic and high-pressure environment. Not being able to wait until year-end, managers began submitting monthly production reports or briefs, no longer than a half-page e-mail, communicating two items to their management: their team’s five most significant accomplishments for the last month and their team’s five highest priorities for the current month. This simple, albeit defensive, effort served to keep the business afloat and in compliance and became the basis for what has become Big Five.

How Big Five Works

Big Five can totally replace the traditional, annual, employee appraisal process. Here’s how.

Employees are required to submit a half-page report to their manager on a monthly basis. The reports, like the original Big Fives in the story above, detail the employee’s five most significant accomplishments from the previous month and their five highest priorities for the current month. This open and flexible format affords the employees the opportunity to tell their story, communicating anything they consider to be important to their manager, allowing them to take credit for their work. The manager in receipt of these reports responds in writing to each employee, commending and affirming, directing, or correcting the employee's activities for the month, shaping the employee's efforts toward the accomplishment of departmental or corporate goals, and subsequently, creating performance documentation.

Managers do not get to lock themselves away and manage by e-mail, of course. Big Five users report that it serves as a catalyst by enabling and expanding employee/manager communication. Finally, when collected and combined over any rolling 12-month period, these reports paint a much more accurate picture of an employee's overall contribution than the traditional, annual appraisal.

Time Requirements

Big Five is not an annual appraisal conducted 12 times per year. With Big Five, employee reports are expected to be concise. Bullet points are not only acceptable but preferred, and only employers in publishing or other editorial fields will feel the need to deduct for spelling and grammar. The manager's responses can be limited to a simple, "Agree. Carry on!" when appropriate. This nimble communication is not only efficient but seems to be an effective match of style with many younger workers who are accustomed to communicating in only 140 characters on Twitter and other quick-hit types of social media. Managers are certainly free to provide as much detail as is needed They are also encouraged and instructed to use language like, "See me. Let's talk. We do not appear to be aligned on this priority," when required.

Employees are not limited to five priorities but that number has been proven to be an effective baseline. As a rule, employees are instructed to report no fewer than three and no more than seven priorities per month.

Average employees can formalize their report in about 10 minutes; less time is needed as they become more accustomed to thinking about the highest and best use of their time and how they can best contribute to their work unit's success. Most managers spend less than 10 minutes per month per employee, freeing their time to deal with those employees who need additional attention and supervision.

Employee Big Fives are due on the fifth calendar day of the month or the first work day thereafter. This emphasis on the number five helps to solidify the process culturally. Managers have five days to respond to an employee's report, further strengthening the installation of the process. The employees prepares their report and the managers responds to the reports, ending and closing the process for that month. No second-level approvals are required by the manager's manager. Any pending issues or on-going discussions appear in the next month's report, saving time when compared to the traditional "negotiation" between all three parties required to finalize a traditional appraisal—the employee, the manager, and the next level manager.

Finally, the need to complete a summary document for the year is totally eliminated. Coaching and documentation has occurred monthly and will continue to occur on an on-going, monthly basis. There is little need for a year-end, summary meeting to assign the employee a grade, score, or rank. An organization that is committed to a hard-tie between a dashboard or scorecard and annual merit increases can certainly use Big Five to help calculate compensation as the process tends to create more data and higher-quality data than traditional appraisals. Some organizations using Big Five require that managers provide a monthly score for each employee report, assessing whether the employee set and met meaningful goals. Others have been successful by separating performance discussion with employees from communication regarding pay. Big Five serves both models well.

Customization

The monthly report format can be constructed in a number of different ways to fit any culture and organization. Content can include any or all of the components listed below.

Required Fields

- *Corporate mission/vision/values/goals.* This opening, narrative section is normally populated by the employer and is useful for communicating the strategic or annual goals of the organization. This information is usually static, changing annually, and requires no input by the employee. This section helps to create alignment as all employees are constantly reminded of the corporate mission, vision, and goals.
- *Big Five accomplishments.* In this section, employees list their five most significant accomplishments for the last month. It is common for employees to populate this list with whatever they listed as their priorities for this reporting period in last month's report. This ensures continuity and accountability. It is perfectly acceptable to report that some of the priorities could not be completed. Incomplete

priorities that remain relevant simply move to the next month. Incomplete priorities that are no longer relevant can be removed by mutual agreement.

- *Other accomplishments.* This section allows employees to list any additional accomplishments—those that were not already covered in the Big Five. These are most often reported in even shorter formats than Big Five. It is not unusual for employees to report five to seven bullet points, each only one line in length.
- *Big Five priorities.* These are the five highest priorities for the employee for the current, monthly reporting period. These priorities can include production or project goals as well as professional development activities or any efforts to demonstrate or strengthen corporate values.
- *Manager's response.* This narrative field allows the manager to respond to any or all of what the employees have reported as their accomplishments and priorities. This is where coaching and documentation begins.

Optional Fields

- *Personal/professional development.* If professional development is of particular interest, an organization could decide to create an additional section dedicated to that effort or behavior, removing it from the accomplishments section mentioned above. Employees would use this section to report any goals or objectives related to the development of their skills and capability. This would include any training, schooling, and certifications, of course, but could also include any competency coaching issues or stretch assignments the the employee and/or the manager might bring up.
- *Values.* Some Big Five users have included a section in which employees can take credit for any of their community service activity. They also can list any specific contribution they may have made to any of the company's core values—safety, for instance. Finally, some use this section to allow employees to recognize the specific contributions of others; a sort of mini-360-degree process.
- *Scoring.* Organizations that insist on attempting to have a direct link between performance and merit pay can use this section to provide a monthly employee score. Some use the traditional five-point scale, while more innovative organizations have resorted to a scoring system that tends to provoke less controversy, as in having to justify, "Why did she get a 3.8 but I only got a 3.5?" That scale tends to look more like a green, yellow, red scoring system with green indicating the employee's performance meets or exceeds expectations; yellow, signaling that some improvement must be made to meet expectations; or red, warning that significant improvement must be made.
- *One thing. …* A favorite among Big Five users is this section that requires the manager to answer one specific question for each employee each month—"What one thing should this employee work on this month to help improve his or her overall effectiveness?" The informal nature of this question provides much needed feedback to employees but feels more like coaching than a traditional appraisal where the tone can sometimes seem like discipline or corrective action. With continued use, managers and employees both become more comfortable. Managers get more comfortable and competent in providing feedback, while employees, knowing that everyone in the organization is getting the same kind of feedback each month, tend to relax, becoming more accepting and less defensive.
- *SOS/assistance needed.* This section affords employees with the opportunity to ask for assistance from their manager in solving a problem or removing an obstacle.
- *Brainstorm.* Need a place to solicit input from your employees? Some users include this section and periodically ask employees to provide input or ideas for a specific project or problem. For example, "If you were the CEO for a day, what one thing would you do to improve customer service here at ACME?"

Tracking and Documentation

One of the more important features of the Big Five process is that it does not require an investment in software. The process can be effectively managed on most e-mail systems with electronic storage of each report produced. Users who require a more sophisticated system for gathering, protecting, and sharing the data can utilize any number of document-capture software programs available (SharePoint, the Microsoft version). Most document-capture applications contain security features built around organizational hierarchy that will allow the employee's information to be accessible only by the employee, the manager, the manager's manager, and so on. The system administrator, usually residing in HR, will, of course, also have access. In addition, most of the enterprise-level software packages in place today (PeopleSoft, Cornerstone, Halogen, etc.) can utilize their "off-cycle" functionality to be adapted to the Big Five monthly process.

A software application has been developed specifically to support Big Five and is available globally. The Big Five app is cloud-based and can accommodate any or all of the customized content sections mentioned above. It was developed in response to the demand of current Big Five users. The app auto-populates this month's Big Five accomplishments section with last month's priorities, ensuring continuity and accountability. First-time users register themselves into the system requiring no upload or synching of data from the employer. There is never a need to clean up any organizational unit or cost center information as the correct hierarchy is created in each month's reporting cycle with the simple use of e-mail addresses as unique identifiers for both the employees and their manager, rebuilding the correct organizational hierarchy with each month's report. All reports reside in the app so as not to crowd data traffic. The user can select form several automated e-mail notification schedules. Data are secure, and the software is very intuitive and easy to use. Training on the software normally takes no more than 10 minutes per employee.

How Effective Is Big Five?

Big Five meets and defeats just about all of the 25 challenges previously listed. Summarized in five general categories, the benefits of the process are as follows.

Improved Employee/Manager Communication

The obvious benefit of Big Five is that coaching and feedback occur on a more frequent and consistent basis. The very nature of the process drives continuous conversation and coaching, allowing the team to make small, timely, course corrections each month, staying the corporate course and eliminating any year-end surprises.

As mentioned earlier, the less formal format of Big Five tends to relax both employees and managers. It is often assumed that constructive criticism is more difficult for the employee to hear than it is for the manager to deliver but many managers struggle with it. It can be especially difficult to deliver any "bad news" to those employees who are likely to be outspoken or argumentative in their response. The informal and on-going nature of the Big Five process eases tension for both parties as employees become more and more used to receiving coaching and feedback, and managers, in turn, become more skilled and comfortable in providing it. The use of the One Thing section ("What one thing should this team member work on this month to improve effectiveness?"), also fuels the informal tone of the process. An employee using Big Five for over a year put it this way. "Big Five feels more like coaching than correction. My manager is not so much concerned with assigning me with a grade or a score but appears to be truly interested in helping me to improve my performance. This feels much better than the 'being-taken-to-the-woodshed' feeling I had during annual appraisal."

Improved Accountability and Traction

Big Five focuses on tactics, asking a direct and simple question of employees: "What will I do this month to help my organization be more successful?" In traditional annual appraisals, the links between strategic plans and daily actions are not always apparent. How well does the accountant in the San Diego office of an engineering firm identify with the corporate goal of, "Expanding our presence in the North Sea"?

Employees can also come to the end of the year finding that some of their annual goals were unachievable; many times because of circumstances beyond their control. Changes in technology, the competition, legislation, and company management can render useless what seemed to be a good and viable target 12 months earlier. The process of identifying monthly priorities (versus annual, strategic goals) produces a more focused employee effort; one that helps to drive results and create organizational traction.

Note also that Big Five is a great time-management tool. Most Big Five priorities are designed to be completed within a one-month period. That hard-stop deadline tends to drive employees to action and eliminate slippage. Sales teams have known this for a while with many practicing Monday morning planning sessions and Friday afternoon debriefings. Accountability is public and in real time. Big Five is, in many ways, an extension of that very effective process.

Finally, the process ensures that any priorities the employee was unable to complete in a specific month carry over to the next month, ensuring that nothing important "slips through the cracks."

Improved Return-on-Investment (ROI)

Big Five improves the ROI for the process itself. The benefits of the process increase, while the time commitment required is greatly reduced with some reporting time savings as great as 50 percent. The fact that Big Five can be installed without a significant investment in software and without the assistance of a consultant adds to the financial bonus.

Creates Documentation and Defensibility

Most likely because of its informal nature, some may view Big Five as a "soft" process that may not provide adequate documentation to defend legal challenges. Not so. Especially when users include the metrics section in their process, Big Five produces rock-solid documentation that has already proven beneficial in assisting in a wrongful termination charge.

Think about the report that traditional, annual appraisal usually produces. Generally speaking, there are two to three pages of scores, usually on a one-to-five point scale. Those scores may or may not include specific, narrative examples to support or justify the scores. The scores are followed by a summary narrative that traditionally says something to the effect of, "John is a good employee, a great team member, and always gives 100 percent. I especially appreciate his work on the Paxton project this year, and I look forward to working with him in the years to come."

Big Five, on the other hand, produces 120 documented data points (5 accomplishments per month + 5 priorities per month × 12 months per year) that include the manager's coaching on any and all relevant issues along the way. Both the volume and quality of documentation are superior to most of the documentation produced by traditional appraisals.

Employee Acceptance

Employees tend to like this process because it gives them a chance to tell their story. Even lower-level employees in very repetitive job functions report success using Big Five. Many who initially say, "I don't really have any monthly accomplishments. I am just doing my job," find that the Big Five reveals just how much they do contribute to the team and how much more they may be able to contribute in the future.

Managers like the process solely because it eliminates the year-end process. One additional benefit that managers begin to realize is that the Big Five process can be easily folded into their everyday routine and management processes. Think about staff meetings. Most teams come together and discuss three things: what they have gotten done, what they need to get done, and any issues or opportunities that might help or harm them in getting things done—in essence, Big Five. Managers do not necessarily need to conduct full-blown, one-on-one, monthly performance evaluation meetings with employees, as Big Five tends to work its way into the culture and fabric of the organization causing coaching to happen every day, all day. With Big Five, employee appraisal is no longer an event but a natural outcome of the daily interaction between employees and managers.

NACE International Case Study

The National Association of Corrosion Engineers, located in Houston, is the world-wide leader in pipeline coating and corrosion consulting, education, and certification. It moved from traditional appraisal to Big Five with some amazing results:

- The frequency of coaching under Big Five has improved by 37.6 percent.
- Ninety-five percent of employees believe that the frequency is now "about right."
- Coaching transparency has improved by 8.7 percent.
- Coaching traction has improved by 9 percent.
- Seventy-seven percent said Big Five takes less time or no more time than traditional appraisals.
- Employee/manager communication has improved by 38.4 percent.
- Employee satisfaction with the Big Five process has increased by 49.8 percent.

Bob Chalker, NACE CEO, said it best: "Big Five is less about filling out a form and more about allowing employees to tell their story. With this new process we have achieved greater employee engagement, improvement in employee performance, better corporate alignment across the organization, and a reduction in expenses. This process works!"

NACE International has been awarded the HR.com LEAD Award "Winners Circle" for, "Best Use of Non Executive Coaching Program," for this process.

Obstacles to Big Five

No performance appraisal process can be successful without a commitment to coaching by management. The rallying cries from most HR professionals have been consistent. The traditional process works well if managers take it seriously. The traditional process will work well if we do a better job of training managers to be better coaches. And, finally, the most logical conclusion stemming from the two prior statements is that we need to offer more training.

More training may be a part of the solution, but management behavior in regard to this process has also been consistent. Most managers view the process as a compliance exercise, not a coaching opportunity. They work all year to coach and guide employee behavior only to be faced with having to place a year's worth of data in some small boxes on a form, giving them each some sort of obligatory score that compares the relative value of each employee. They do not see value in the process.[2] Who can blame them? How many HR departments will always check to make sure that the process has been completed but rarely review the documents or performance discussions to ensure quality? The traditional process, by its very nature, reeks of an unhealthy bent toward compliance.

The elimination of the annual process requirements, when coupled with the fact that Big Five feels like a more natural and easy way to coach employees, should mean that managers will gladly support it. However, Big Five will require a serious commitment by executives to hold managers accountable for their active and enthusiastic participation. Without this no process, not even Big Five, will be successful.

The second challenge to Big Five is the mindset of some executives and HR professionals. Installations of Big Five have met resistance from some, claiming that corporate attorneys actually require adherence to the more traditional process. To date, no labor attorney has gone on record in support of that belief. Conduct some research. How was your process created and how has it evolved over time? Why does the process exist? What are the goals and objectives of the process? Finally, as discussed earlier, what are the total costs and the total benefit of the current process? Armed with these data, HR professionals should be able to move forward confidently in identifying and overcoming risk aversion.

The final challenge to Big Five is "creep." Creep is best described as the elimination of a very complex process (traditional annual appraisal), in favor of a more simple solution (Big Five), only to have seemingly small, incremental changes added over time, making the simpler solution, in the end, look a lot like the more complex process. Awareness is the key to safeguarding the simplicity of the Big Five process. Leonardo Da Vinci wrote, "Simplicity is the ultimate sophistication."

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Chapter 10

Analytics-Based Enterprise and Corporate Performance Management (EPM/CPM)

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MANY ORGANIZATIONS ARE FAR FROM WHERE THEY WANT AND NEED TO BE WITH improving performance. They are applying intuition rather than fact-based data when making decisions. Enterprise performance management/corporate performance management (EPM/CPM) is now viewed as the seamless integration of managerial methods such as strategy execution with a strategy map and its companion balanced scorecard (with key performance indicators, KPIs); enterprise risk management (ERM); capacity-sensitive driver-based budgets and rolling financial forecasts; product, service-line, channel, and customer profitability analysis (using activity-based costing [ABC] principles); customer lifetime value (CLV); lean and Six-Sigma quality management for operational improvement; and resource capacity planning.

Each method should be embedded with business analytics of all types, such as correlation, segmentation, regression and clustering analysis, and especially predictive analytics as a bridge to prescriptive analytics to yield the best (ideally optimal) decisions.

Historically, the term "performance management" referred to individual employees and was used by the personnel and human resources function for employee appraisals. Today, this term is widely accepted as enterprise-wide performance management of an organization as a whole. Clearly the performance of employees is not only an important element for improving an organization's performance but is also one part of a broader framework of EPM/CPM, human capital management.

The following will clarify what EPM/CPM methods are, what they do, and how to make them work together. Currently, there is a high interest in EPM/CPM.

Executive Pain: A Major Force Creating Interest in EPM/CPM

It is a tough time for senior managers. Today, customers increasingly view a supplier's products and service lines as commodities and place pressure on prices as a result. Business mergers and employee layoffs are ongoing, and inevitably there is a limit to cost cutting yielding prosperity. Ultimately, management must come to grips with truly managing their resources for maximum yield, internal organic sales growth, and profit.

In complex and overhead-intensive organizations where constant redirection to a changing landscape is essential, the main cause for executive job turnover is the failure of organizations to execute their strategy. There is a big difference between formulating a strategy and executing it. What is the answer for executives who need to expand their focus beyond cost control and toward sustained economic value creation for shareholders and other more long-term strategic directives? EPM/CPM provides managers and employee teams at all levels with the capability to directly align their actions and priorities toward the executive team's defined strategies.

Ultimately, an organization's interest is not just to *monitor* the KPIs derived from a strategy map and displayed in its associated balanced scorecard, but, more importantly, it is to *move* those dials. Scorecards and operational dashboards generate questions. But beyond answering "What happened?" organizations need to know why it happened and going forward, "What could happen?" and ultimately, "What is the best choice based on options?"

What Is EPM/CPM?

EPM/CPM is all about *improvement*—synchronizing improvement methods to create value for and from customers with the result of economic value creation to stockholders and owners. The scope of EPM/CPM is obviously very broad, which is why EPM/CPM must be viewed at an enterprise-wide level.

EPM/CPM helps managers to sense earlier and respond more quickly and effectively to unexpected changes. Why is responding to changes critical? External forces, including globalization and the Internet, are producing unprecedented uncertainty and volatility. The speed of change makes calendar-based planning and long cycle-time planning with multiyear horizons unsuitable for managing. As a result, executives must constantly adjust strategies based on external forces and new opportunities.

Is EPM/CPM a New Process or Method?

The good news is EPM/CPM is not a new process or method, but rather it tightly integrates business improvement methods and analytical techniques that executives and employee teams already know. Think of EPM/CPM as an umbrella concept. It integrates operational and financial information into a single-decision support and planning framework. This includes a strategy map and its associated balanced scorecard; costing (including activity-based cost management); budgeting; forecasting; and, resource capacity requirements planning. These methods fuel other core solutions such as customer relationship management (CRM), supply chain management (SCM), risk management, and human capital management systems, as well as lean management and Six-Sigma quality initiatives. There are many ingredients that blend together.

EPM/CPM increases in power the greater these managerial methods are integrated, unified, and spiced with all flavors of analytics—particularly predictive analytics. Predictive analytics are important because organizations are shifting from managing by control and reacting to after-the-fact data toward managing with anticipatory planning to be proactive and ready to make adjustments before problems occur.

EPM/CPM can be viewed as overarching from the C-level executives cascading down through the organization and the processes it performs. EPM/CPM relates all the way from the top desk to the desk top.

Primitive forms of EPM/CPM methods existed decades ago. These forms were present before EPM/CPM was given a formal label by IT research firms and software vendors. EPM/CPM methods existed before there were computers! In the past, organizations made decisions based on knowledge, experience, or intuition. But as time passed, the margin for error grew slimmer. Computers reversed this problem by creating lots of data storage memory, but this led organizations to complain that they were drowning in data but starving for information—thus distinguishing the word *information* as the transformation of raw data, usually transactional data, into a more useful form. In the 1990s with the speed up of IT systems integration with computer technology, the term EPM/CPM management took root.

What Has Caused Interest in EPM/CPM?

Admittedly, there is ambiguity and confusion about EPM/CPM. Regardless of how one defines or describes it, what is more useful is to understand what the EPM/CPM methods do and what business forces and pressures led to executives' interest in utilizing its methods.

Eight major forces and pressures have generated interest in EPM/CPM as problem solvers:

1. *Failure to execute the strategy.* Although executive teams typically can formulate a good strategy, their major frustration has been failure to implement it. The increasing rate of involuntary job turnover of CEOs is evidence of this problem. A major reason for this failure is that most managers and employees cannot explain their organization's strategy, and consequently do not understand their contribution to their executives' strategic intent. Strategy maps, balanced scorecards, KPIs, and dashboards are the elements of the EPM/CPM suite of methods that address this.
2. *Unfulfilled return on investment (ROI) promises from transactional systems.* Few if any organizations believe that they realized the expected ROI promised by their software vendor that initially justified their huge large-scale IT investment in major systems (e.g., CRM, enterprise resource planning [ERP] systems). The chief information officer has been increasingly criticized for expensive technology investments that, although probably necessary to pursue, have fallen short of anticipated results. The executive management teams have been growing impatient with IT investments. EPM/CPM is a value multiplier that unleashes the power and financial payback from the raw data produced by these operating systems. EPM/CPM analytics increase the leverage of CRM, ERP, and other core transactional systems.

3. *Escalation in accountability for results with consequences.* Accelerating change that requires quick decisions at all levels is resulting in a shift from a command-and-control managerial style to one where managers and employees are increasingly empowered. A major trend is for executives to communicate their strategy to their workforce, be assured the workforce understands it, and is financially funded to take action, and to then hold managers and employee teams accountable for results. Employee accountability is escalating, but it has no teeth without consequences. EPM/CPM adds teeth and traction by integrating KPIs from the strategy map's balanced scorecard with employee recognition that includes the compensation reward systems.
4. *Need for quick trade-off decision analysis.* Decisions must now be made more rapidly. Unlike in the past where organizations could test and learn or have endless briefing meetings with upper management, today an employee often must make an instantaneous decision. This means that managers and employees must understand their executive team's strategy. In addition, internal tension and conflict are natural in organizations. Most managers understand that decisions they make that help their own function may adversely affect others. They just don't know who is negatively affected or by how much. A predictive impact of decision outcomes using analytics is essential. EPM/CPM methods are increasingly embedded with analytical tools, ranging from marginal cost analysis to what-if scenario simulations that support resource capacity analysis and planning, and calculate future profit margin estimates.
5. *Mistrust of the management accounting system.* Managers and employees are aware that the accountants' arcane "cost allocation" practices using noncausal broad-brushed averaging factors (e.g., input labor hours, sales volume) to allocate nondirect product-related expenses result in flawed and misleading profit and cost reporting. Some cynically refer to them as the "misallocation" system! Consequently, they do not know where money is made or lost or what drives their costs. EPM/CPM embraces techniques like activity-based costing (ABC) and lean accounting (which can be coexisting methods) to increase cost accuracy and reveal and explain what drives the so-called hidden costs of overhead. It provides cost transparency and visibility that organizations desire but often cannot get from their accountants' traditional internal management accounting system.
6. *Dysfunctional budgeting.* The annual budgeting process is criticized as obsolete soon after it is published, prone to gamesmanship, cumbersome to consolidate cost center spreadsheets, not being capacity-sensitive to changes in sales volumes and mix, and disconnected from the corporate strategy. The challenge is how to resolve these deficiencies. It can be done through capacity-sensitive, driver-based expense projections also useful for decision analysis. The annual budget is often perceived as a fiscal exercise performed by the accountants that is disconnected from the executive team's strategy, and does not adequately reflect future volume and mix drivers. The budget exercise is often scorned as biased toward politically muscled managers who know how to overstate and "pad" their budget requests. To complicate matters, traditional budgets are typically incremented or decremented by a small percent change from each cost center's prior year's spending level. This "use it or lose it" behavior by managers in the last few months of the fiscal year unnecessarily pumps up their prior year's costs and consequently confuses analysis of who really needs how much in the coming year. Today organizations are shifting to rolling financial forecasts, but these projections may include similarly flawed assumptions that produce the same sarcasm about the annual budgeting process.
7. *Poor customer value management.* Everyone now accepts how critical it is to satisfy customers in order to grow a business. It is more costly to acquire a new customer than to retain an existing one. In addition, products and standard service lines in all industries have become commodity-like. Mass selling and spray-and-pray advertising are obsolete concepts. The focus has shifted to understanding which types of existing customers and new sales prospects to grow, retain, win back, or acquire using differentiated service levels—and how much to spend on each type of customer that is worth pursuing. It requires working backward by knowing each customer's unique preferences. EPM/CPM includes sales and marketing analytics for different customer segments to help them better understand where to focus the sales and marketing budgets for maximum yield and financial payback. The return on customer (ROC) is an emerging term.
8. *Dysfunctional supply chain management.* Most organizations now realize that it is no longer sufficient for their own organization to be agile, lean, and efficient. They are now codependent on their trading partners, both upstream and downstream, to also be agile, lean, and efficient. To the degree that their partners are not, then waste and unnecessary costs enter the end-to-end value chain. These costs ultimately are cumulatively passed along the value chain resulting in higher prices to the end consumer that can reduce sales for all the trading partners. Today, supply chains compete against other supply chains for the share of a consumer's purse. Sadly, there have been centuries of adversarial relationships

between buyers and sellers. EPM/CPM addresses these issues with powerful forecasting tools, increasing real-time decision making, and financial transparency across the value chain. It allows value chain trading partners to collaborate to join in cost savings from mutually beneficial projects and joint process improvements.

EPM/CPM Framework for Value Creation

Figure 10.1 illustrates the interdependent methods that comprise EPM/CPM for a commercial organization. Note that EPM/CPM is circulatory and Simultaneous.

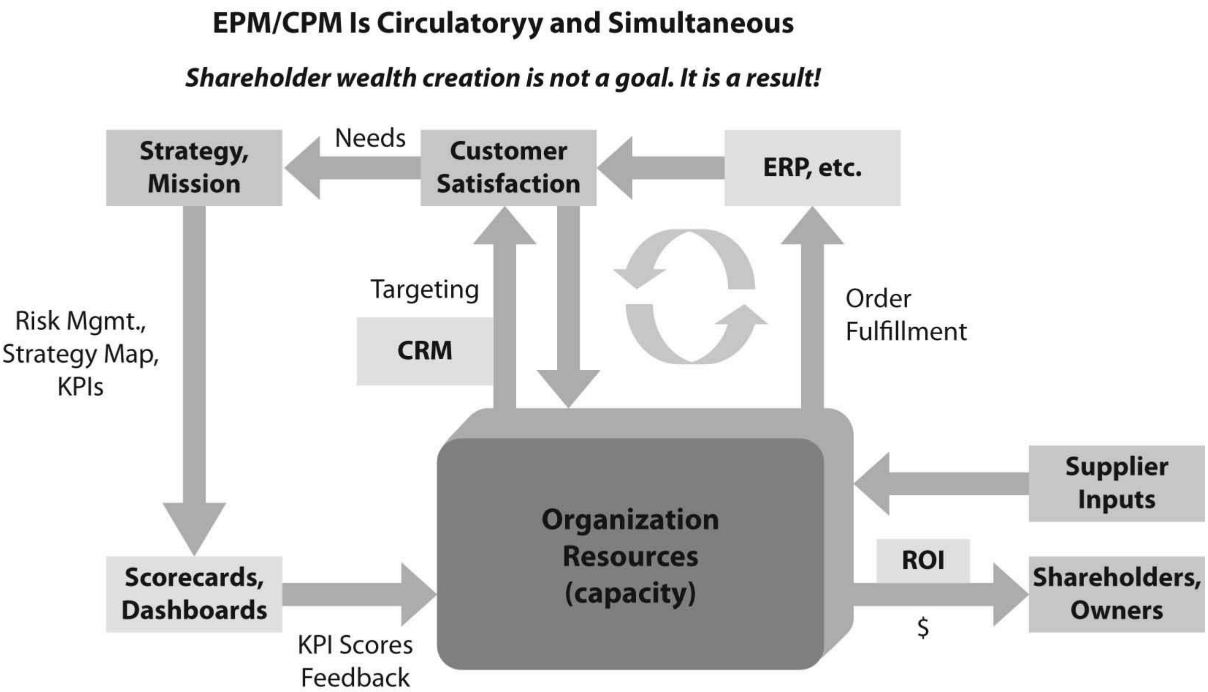

Figure 10.1 EPM/CPM Flow

To explain Figure 10.1, first understand the objective is to connect the "customers" to the shareholder/owner" box. First, focus on the three counter-clockwise arrows at the center of the diagram, starting and ending with the "customers" box. The two fat arrows represent the primary universal core business processes possessed by any organization: take an order or assigned outcome, and fulfill that order or assigned outcome. Order fulfillment is the most primary and universal core process of an organization. An example in healthcare is that a hospital admits patients and then treats and heals them. The IT support systems needed to fulfill this core process is represented by the two fat arrows; they are commonly referred to as *front office* and *back office* systems. This portion of Figure 10.1 is the realm of "better, faster, and cheaper."

The customer-facing, front office systems include customer relationship management (CRM) systems. This is also where targeting customers, marketing campaigns, sales processes, and work-order management systems reside. The back office systems are where the fulfillment of customer or work orders, process planning, and operations reside—the domain of ERP and lean/Six-Sigma quality initiatives. The output from this process planning and execution box is the delivered product, service, or mission intended to meet customer needs. To the degree that customer revenues exceed all of an organization's expenses, including the cost of capital, then profit (and positive free cash flow) eventually accumulates into the shareholder's box in Figure 10.1's lower right.

Figure 10.1 should be viewed as a circulatory flow of information and resource consumption similar to your body's heart and blood vessel system. As earlier mentioned, an organization's EPM/CPM practices have been around for decades—even before computers. Think of how speeding the flow and widening constrictions will increase throughput velocity and the yield from the organization's resources. More with less. Value for money. These are phrases associated with EPM/CPM.

Figure 10.1 is dynamic. The starting point of the diagram begins with the customer satisfaction box. The need to satisfy customers is the major input into senior management's box in the exhibit's upper left—mission, strategy. As the executive team adjusts its organization's strategy, team members continuously communicate it to employees with their strategy map and its companion balanced scorecard. With strategic objective adjustments they may abandon some KPIs intended to align work behavior and priorities with the outdated strategy. In those cases, KPIs associated with outdated strategies are not unimportant but rather now less important. The team may also add new KPIs or adjust the KPI weightings for various employee teams. As the feedback is received from the scorecards, then all employees can answer a key question: "How am I doing on what is important?" The power of this question is in its second half: to focus everyone on what is most important. With analysis for causality, corrective actions can then occur. The left portion of the diagram deals with strategy execution.

Continuing on, the organization's marketing and sales can better focus on which existing and potentially new customers to target to retain, grow, win back, and acquire as well as determining the optimal amount to spend on each type of customer microsegment with differentiated service levels, deals, coupons, discounts, or offers.

Finally comes the order fulfillment loop previously described. Take orders and efficiently fulfill the orders.

As this circulatory system is streamlined and digitized with better information, decisions and more focused and aligned employee work, then the result is faster and yields higher shareholder wealth creation. Shareholder wealth creation is not a goal—it is a result. It is a result of addressing all of the methods in the figure's flow.

Where is a box for innovation in the exhibit? It is not indicated because it must exist inside every box and arrow in the diagram. Innovation is as mission-critical today as achieving total quality management (TQM) was in the 1980s. TQM was assumed to be a given—an entry ticket to even compete. That is innovation today. I do not dwell on innovation because I believe it is so critical that I leave it to other authors to devote articles and books on this important topic.

The best executive teams do not consider any of the components in Figure 10.1 as optional—they are all essential and imperative. The best executive teams, however, not only know the priorities of where in the flow to place emphasis to widen constrictions, but also to improve all the other EPM/CPM methods in the flow.

A proven way to implement EPM/CPM's methods is with quick rapid prototyping followed by iterative remodeling. This approach accelerates learning and buy-in from managers, many of whom are skeptical or have fear of change. These quick-start approaches reveal findings previously unknown that can contribute to changes in processes and altering the executive team's strategic objectives. The initial prototype model then evolves into a permanent, repeatable, and reliable production reporting and decision support systems.

Note that management accounting does not appear in Figure 10.1. This is because the output of a management accounting system is always the input to someplace where analysis and decisions are made. The primary purpose of management accounting is for insights and discovery to generate questions for needed conversations. In the figure, it supports every box and arrow.

EPM/CPM Unleashes the Return on Investment from Information

There is a shift in the source for how organizations realize their financial ROIs from tangible assets to the intangible assets of employee knowledge and information. That is, the shift is from spending on equipment, computer hardware, and the like to knowledge workers applying information for decision making.

Across the horizontal axis in Figure 10.2 are the stages that raw transactional data pass through to become the information, knowledge, and insights to make better decisions from which successful organizations will eventually experience and benefit. The vertical axis measures the power and ROI from transforming that data and leveraging them for realized results. The ROI increases exponentially from left to right.

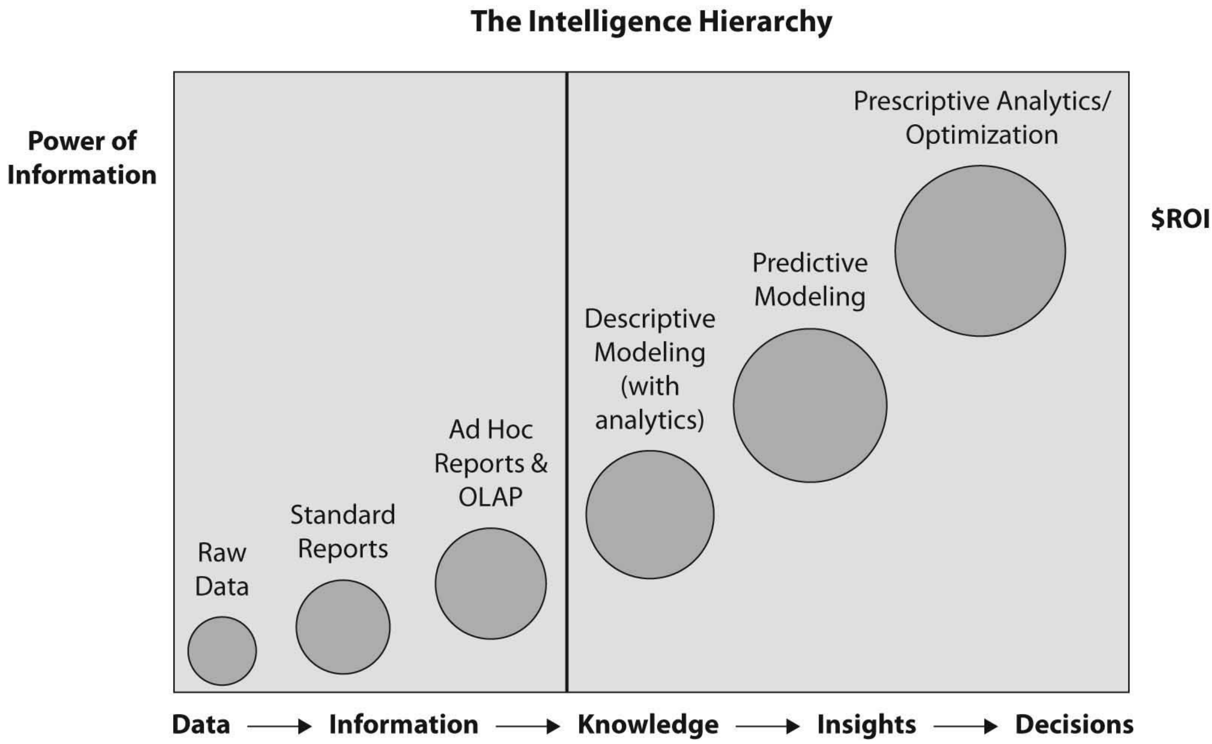

Figure 10.2 Transforming Data into ROI

Figure 10.2 The Intelligence Hierarchy

The three bubbles on the left side are the location of transactional data for daily operations and reporting. The three bubbles to the right are where business analytics and the EPM/CPM suite of methods elevates the ROI.

Most organizations are mired in the figure's lower-left corner's first two bubbles, hostage to raw data and standard reports. In some organizations, the CIO and IT staff have allowed some managers to use basic query and reporting on-line analytical processing (OLAP) tools to drill down to examine some of those data. But these data still restrict and confine workers to know only what happened in the past.

The power of EPM/CPM and analytics begins with the fourth bubble—descriptive modeling. The power of modeling is that it relies on cause-and-effect relationships. As an example: ABC models the conversion of expense spending into the calculated costs of processes, work activities, and the types of outputs, products, service lines, channels, and customers that consume an organization's capacity. Costing is modeling. It is not an accountant's general ledger with T-accounts with debit and credit journal entries. As another example, a strategy map and its associated performance indicators are a model on a single page of how an organization defines its linked strategic objectives and plans to achieve them. Data have been transformed into information. In this fourth bubble, employees can know not just *what* happened but also *why* it happened.

The fifth bubble passes from historical information from which organizations are reactive to predictive information, such as what-if scenarios and rolling financial forecasts. In this fifth bubble, organizations can be proactive. As mentioned earlier, organizations are shifting their management style from after-the-fact control based on examining variance deviations from plans, budgets, and expectations to an anticipatory management style where they can adjust spending and capacity levels as well as projects and initiatives before changes in work demands arise. Information is used for knowledge. At this stage employees can now know not just *what* happened and *why* it happened but also *what can* possibly happen next.

The sixth and final bubble in the upper-right corner is highest stage—optimization. At this point organizations can select from all of their decision options examined in the prior stage and determine which is the best decision to make and action to take. This stage has been termed by IT analyst firms as "prescriptive analytics." A few software vendors now offer this functionality using linear programming techniques.

IT transactional systems may be good at reporting past outcomes, but they fall short on being predictive or prescriptive for effective planning. Given a sound strategy, how does the organization know if its strategy is achievable or affordable? What if pursuing the strategy and its required new projects and initiatives will cause long-term negative cash flow or financial losses? Will the needed resource requirements exceed the existing capacity?

Management's Quest for a Complete Solution

Many organizations jump from one improvement program to another hoping that a new program will provide a competitive edge like a magic pill. However, most managers would acknowledge that pulling one lever for improvement rarely results in a substantial change—particularly long-term sustained change. The key for improving is integrating and balancing *multiple* improvement methods and spicing them with analytics of all flavors—particularly predictive and prescriptive analytics. In the end, organizations need top-down guidance with bottom-up execution.

Conclusion

Organizations that are enlightened enough to recognize the importance and value of their data often have difficulty in *realizing* that value. Their data are often disconnected, inconsistent, and inaccessible resulting from too many nonintegrated single-point solutions. They have valuable, untapped data that are hidden in the reams of transactional data they collect daily.

How does EPM/CPM create more value lift? A fundamental capability for EPM/CPM is that it transforms transactional data into decision-support information. Transactional systems (e.g., enterprise resource planning [ERP]) were designed for a different purpose—short-term operating and control with historical reporting of what happened.

Fortunately, innovation in data storage technology is now significantly outpacing progress in computer processing power, thus heralding a new era where creating vast pools of digital data is becoming the preferred solution. The pools of data are commonly referred to as "big data." As a result, there are now superior software tools that offer a complete suite of analytic applications and data models that enable organizations to tap into the virtual treasure trove of information they already possess. This enables effective EPM/CPM on a scale that is enterprise-wide in scope.

EPM/CPM is the integration of these technologies and managerial methods. The EPM/CPM suite of methods provides the mechanism to bridge the business intelligence gap between the CEO's vision, mission, and strategy to meet investors' expectations and employees' actions.

Chapter 11

Forecasting Employee Potential for Growth

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THE CORE TALENT MANAGEMENT PROGRAM IN LARGER COMPANIES FOCUSES ON accelerating high potentials. Later in this chapter we describe why this is the case, but a key issue for all these programs is: what do we mean by "potential for growth"? A clear fact is that people change. We accumulate experiences that often cause us to see and do things differently. Obviously, there are some things that we repeat habitually. Habits help us take care of routine matters and allow us to open up our brains to process priorities for change or take on more demanding tasks. What is the relationship between change, growth, and potential? If we are able to process different inputs or deal with more complex changes, then doesn't this mean that not only do we have potential for growth but that we are continually growing?

We tend to assume that people are growing at a different rate and on a different curve. There is probably a point where rate of growth levels off. So when we assess potential for growth, are we asking about which employees are not leveled off? Authors such as Elliott Jaques[1] have produced curves to describe different rates. There is not a lot of empirical evidence as to where these leveling off points are situated. There is also not much evidence about whether an employee couldn't jump-start a new path after leveling off for a while. Because everyone is changing and growing to some extent, "potential for growth" in talent management is often shorthand for answering the question, "How far can this person go?"

In this chapter, we offer some suggestions for determining whether people have leveled off, whether they could either jump-start to a new level of growth or keep growing, and particularly whether they can progress to levels of work significantly beyond where they are currently contributing. I make two assumptions. First, employee growth potential is focused on developing people into leadership roles, but the principles can be applied for different types of roles in tomorrow's organizations whose structure and content we cannot predict today. Second, while many writers about potential focus on the attributes of people with high potential, what we often miss are the risk factors of actually getting a move or promotion wrong. So I focus on the risks of wrong decisions as much as positive indicators. Indicators of risk also help to address the question as to why someone may have leveled off.

I address three areas after looking at the changing work environment:

- How to spot high-potential leaders?
- What derails employee growth?
- Building an inventory of positions to test and develop high potentials.

Today's Environment Makes It More Imperative and More Challenging to Determine Potential

I recently interviewed Lieutenant General (ret.) Rhett Hernandez, former commander of Army Cyber Command, which he founded. I asked him when he was at West Point as a young cadet some 40 years ago if he dreamed that he would retire as the leader of Cyber Command. "No," he replied, "But I don't think my fellow classmate who retired as Commander of Army Space command dreamed that's where he would end up either!" This is a light touch answer to a profound issue in determining employee potential for growth. For what roles and what situations are we growing employees? The fundamental elements of looking at potential are changing because the very nature of work in organizations is changing.

There are three big drivers that are changing organizations and the nature of work and therefore how we determine employee potential:

First, today in most of the developed world, there are more executives leaving the workforce than entering it. This causes large organizations to change how they develop employees. In the 1990s I worked with the CEO of a large consumer goods company. He told me that before getting to the top of the company, he had worked at 14 different roles in 10 different countries. As in the case of the CEO, the typical method used by large companies was to take employees in defined tracks (a popular one being the management development track) and move them through a succession of new positions where they could be observed before they moved on to something more challenging or to a position that the company felt met their capability. Today these developmental positions do not exist. Therefore, employees will move through positions of greater responsibility at a faster rate. This places more emphasis on ensuring that employees can accelerate their learning. This has always been the case in entrepreneurial companies and companies in emerging territories that are growing fast and changing in dynamic ways.

Second, the nature of work is changing. While there is still a big debate about how far into professional roles "robotization" will reach and by when, there is no doubt that work at all levels requires much more adaptation and cognitive skills than in previous generations. In management roles there will be considerably fewer requirements for managing and supervising workers in predictable, routine, and repetitive tasks. Therefore, we need to assess capabilities for leading knowledge workers whose technical skills the leader may know nothing about. Think again about General Hernandez. The roles that exist in Army Cyber Command today did not exist when he set up this division of the army in 2009. Likewise, in many industries there are new categories of work based on new and emerging technologies.

The third driver is the nature of careers. Apart from being in the army, my father had a single career in the same organization. I am in at least my fourth career. Today's people in their twenties and thirties will probably have more than four separate career blocks. Therefore, a key issue in determining potential is around potential for what and where and whether that potential can be reinforced or not.

The 3 Cs of Potential—Change, Conviction, and Commitment

Flatter, less stable, more dynamic organizations have increased the need for models so that they can assess whether an employee has potential. I use a simple model that gets at whether a person has the capacity to move forward and how fast. The model has three elements: change, conviction, and commitment (the 3 Cs.)

Change Lens

The "change lens" looks at the employees from the viewpoint of how they set an agenda for change. The key issue for evaluating potential is whether the person sees himself or herself as a change agent. We can adjust our lens to look at some subdimensions. Where do employees see the source of change? Are the changes incremental, or do employees look at a more radical view of what has to be changed? Is it in an area that exceeds standards? Does it set a new standard? An alternative driver that some people use is to turn thinking around and see the world in fresh ways. This is more than great analytic ability, although the more complex the change that is envisaged the more analytic abilities will be needed. The emphasis should be on looking at how the person brings disconnected points into a new focus.

Conviction Lens

With the "conviction lens" the focus is about how employees convince others of their convictions. In a changing environment, taking others with you as a leader has to start with a strong platform. Strong beliefs provide a source of clarity. That clarity of direction enables leaders at all levels to communicate. Therefore, to focus this particular lens we ask, "What is their capacity to communicate their conviction?" In addition, we need to ask, "Do people find his or her conviction credible?" Leaders are never disconnected from their followers. The leadership task is often to shape or reshape the views of followers. Are they able to understand others? Can they shape positions so that people will follow them and trust that they represent them? So this is broader and more inclusive than persuading people on a particular issue or being able to make compelling presentations.

Commitment Lens

In the “commitment lens” we look at whether there is evidence that employees have the capability to commit, often referred to as follow-through. The follow-through shows the ability to translate change agendas and convictions into action. The recognition by others that this is what they do is a positive indicator that others will follow. “Conscientiousness” is one of the “big 5” personality factors that will be referred to. While there are nuances on how the other factors predict success and growth potential, there is overwhelming evidence that higher levels of “conscientiousness” predict success.

Are there more formal methods for observing these factors? One promising inventory that is still in development is Burke’s learning agility inventory[2] that measures four dimensions that overlap with these three lenses: innovating, performing, reflecting, and risking as well as a fifth defending that is the obverse of these.

Make Sure You Understand and Assess What Can Derail an Employee’s Future

In assessing potential many organizations are looking at the issues that could block growth or derail someone from moving ahead. How do we know someone could become derailed? There is a difference between becoming derailed and not performing in a role. There could be a number of reasons that someone is not performing that have nothing to do with his or her potential; for example, lack of knowledge or poor supervision. But derailment is a more fundamental issue. Indicators of derailment include obvious signs of repeated stress or inability to function in core parts of the role over a period of time.

Learning Agility

Learning agility, as we mention above, is a positive indicator of potential and is measured in a number of ways. A key indicator is *the desire to learn*; people with this characteristic have an innate curiosity about the world around them. We can imagine people being quite successful in a particular role but having no curiosity about the world Although they can achieve results in a role, they are vulnerable when the demands of the role change so substantially that they may not be able to react quickly enough.

This is supported by some classic studies of *derailment*. Failure to keep learning can also be associated with a know-it-all attitude or a degree of inflexibility. Learning agility has evolved into a set of measures that assess a person’s ability to keep learning. Lombardo and Eichorn,[3] for example, propose measuring:

- People agility
- Results agility
- Mental agility
- Change agility

These dimensions are very much the opposite of the positive forces discussed in the three lenses. For example, lack of agility in dealing with people will fundamentally block getting opinions and beliefs across, and lack of mental and change agility will prevent developing a powerful change agenda. When properly measured, lack of learning agility will eliminate a candidate for advancement.

Emotional and Social Agility

Emotional intelligence has become a key issue in organizations. Emotional and social agility is the ability to move seamlessly across different milieus. Emotional intelligence is not a single static concept. Goldman and Boyatzis[4] define it in four clusters with a number of competencies describing each cluster. These are illustrated in Figure 11.1. Absence of a particular attribute is not necessarily a derailer. Within a cluster strength in one attribute will, in most situations, offset absence of another. Absence or low scores on all the attributes in a cluster is much more an indicator that the individual does not have sufficient emotional or social agility to move without stress from role to role.

	Self	Others
Awareness	Emotional Self-Awareness	Empathy Organizational Awareness
Managing	Emotional Self-Control Adaptability Achievement Orientation Positive Outlook	Influence Coaching Conflict Management Teamwork Inspirational Leadership

Figure 11.1 Characteristics of Emotional Intelligence
Adapted from Goleman & Boyatzis: Emotional Intelligence Has 12 Elements. Which Do You Need to Work On? *Harvard Business Review*, February 2017.

The one item that deserves special consideration is lack of self-control. Many question this by arguing that Bill Gates, Steve Jobs, and a number of other highly successful people have a reputation for "losing it." But we need to understand why lack of self-control derails most people. Leadership and management are not roles that exist in a vacuum from other people. Relationships are important. Indeed, as organizations become more project-centered and team-based, then throughout the organization teams become more important and along with that goes relationships. People with lack of self-control tend to burn relationships. Some have even argued that in some situations leaders may "symbolically" appear to "lose it" in order to get a point across. But it is the repeated lack of self-control that gets people into trouble. Bill Gates and Steve jobs also grew up organizationally in special environments that may not be replicated elsewhere. "Losing it" as a boss is generally a bad idea as people will tend to be afraid of bringing news that may set you off or displease you. Give and take is special in these technology environments. People are expected to bring robust and challenging arguments to the table. Of course, you might lose your job for being wrong but you will more likely keep it for being challenging. Even in these environments where challenge is important, relationships are important. Having good relationships does not imply constant harmony and lack of challenge on core ideas. But lack of self-control tends to make interactions less certain and over time destroys relationships.

Personality Defects!

We are fascinated by what traits cause people to be successful. Today psychologists have agreed on the "Big 5"[5] that predict success: extraversion, agreeableness, openness, conscientiousness, and neuroticism.[6] Low scores on any of these scales with the exception of conscientiousness would not by themselves predict lack of potential. Rather a particular combination of scores or profiles can be associated with problems.

Hogan and Hogan[7] define a set of 11 scales that predict derailment in different types of roles and different types of situations. These are associated with the "Big 5" and other subscales that are commonly used by organizational psychologists. They predict what will cause an employee's work performance to be disrupted under conditions of stress. These stress conditions will be different for any particular role and therefore organizations can use them to decide suitability of an employee in one role over another. Because the main underlying component of the Hogan HDS[8] scales starts with predictions of dealing, the findings need to be considered taking into account the organizational environment and also the potential offsetting effects of other attributes the person brings to the role. But at its heart the Hogan tests brings to the line managers making decisions that potential assessment is as much a risk management process as a process of selecting people with the most promising attributes. Any organization administering psychometric tests need to ensure that they are administered professionally. The main use of the results of tests in this area should not be to select between people with defined profiles. Rather the primary application should be to isolate people with patterns that are known to be unusual and problematic. These people are more likely to derail. Organizations should seek professional advice in making that determination

If we understand what causes people to be successful and also what could derail them, then shouldn't focus be on helping people develop their potential? There is less agreement and several robust arguments and studies as to whether these are innate attributes in people or whether they can be developed. The evidence is that while there are some aspects that are genetic, there are many aspects that are developed over time. This is also a risk-management issue. If all employees could develop to some extent, then what is the cost of failing to allow that potential to develop? This is clearly weighted against the cost of actually acquiring that potential from the outside or selecting someone else internally. This is one reason that cohort-based management development programs reasonably early or at a critical juncture in a person's career are valuable. If the results are transparent, then we allow individuals to start making choices about how they want to manage their potential.

You Need to Inventory Positions for Growth

Organizations are flatter than they were in the past. Roles change more frequently. Hierarchy in organizations is out of fashion but is part of the natural order. There is no doubt that everybody changes and develops to some extent. The only question is how fast and therefore, in terms of predicting potential, how far. Precisely because there are fewer roles and less hierarchy in today's organizations, more time needs to be spent identifying those roles that will develop characteristics identified by "potential lenses."

A retooling of a very traditional practice in human resources can help the talent manager refine the pathways for employee—job evaluation. This may surprise many HR managers because job evaluation is associated with bureaucracy and today's organizations, if they do employ it, seek to streamline. However, it is worth remembering that traditional job evaluation was meant to help managers see through the clutter of work and show a discernable pattern of work activities. Originally job evaluation of managerial roles was used not to determine pay systems but to help diagnose organizational issues and solutions. Over time, the practice became more associated with pay and grading. Ironically, the principles that underlie job evaluation are even more important today. These principles form a guide for showing pathways for growth roles in an organization.

The Hay Group approach to the most established job evaluation system was dependent on just three simple observations about work:

- What the incumbent in the role brings to that role (knowledge and skills);
- The kinds of problems that need to be solved in the role (the connecting point between;
- The impact the role has on the organization.

We suggest building an inventory of roles that start with evaluating which roles or which projects will allow employees to show and develop their potential. Starting with asking what the problem-solving demands of a role are is natural. In any role on any particular day there will be a number of discrete problems. But over time, the texture of these problems becomes similar in terms of how much original problem solving, bringing forward of information and analysis, is required in order to solve the problem. In any organization, although there will be differences in the types of problems that are solved, there are similarities at different levels and between clusters of roles about the quality and nature of problems that require solving. Think of a first-level supervisor or team leader juggling individual priorities, ensuring that particular task deadlines are met, and contrast this with the head of a division or business owner looking not only at the sum of all priorities for the week or month but also at the impact today and perhaps funding issues for tomorrow.

In our inventory of roles, we also need to progressively test potential for having an impact. This has to go beyond traditional measures like number of employees or size of budget although, for assessing whether someone can perform in a role, these are not unimportant. What is more important for potential determination is the time horizon that decisions made by the person in the role has to follow. People also have different tolerances for seeing issues over different time spans. I often use a conversational question like this, "What do you see in the future for XX industry or YY function?" I try to keep up the conversation by asking follow-up questions. What I am trying to focus on is what time span of "future" the person is trying to operate in. In some industries it may be difficult to look beyond five years, but in others (pharmaceuticals, for example) we would expect executives to be looking at a time span of 10 to 15 years.

Will the sum of problems solved or decisions made in this role have an immediate or longer-term effect? The core issue is around the person's capacity for problem solving and how far ahead such people can contextualization their problem solving. This is more than raw IQ. What has to be considered is how much information people can absorb and how they like to process that information. For example, do they search for new and unique solutions, or do they tend to put that information into a common box, or do they do both? How systematically do they analyze? How innovatively do they analyze? These are key elements in our "change lens."

Another factor that should be considered in an inventory of roles is what types of decisions (as opposed to problems) the role is accountable for. Is the role accountable directly for decisions that affect fundamental operations and results of the company, or is the role accountable for advising people who eventually will make these decisions? Sometimes it can be a combination of both. This is important for assessing potential for growth because some individuals gravitate to a path from which moving out is extremely uncomfortable and a major barrier to adapting to another role. On the other hand, putting people on different paths can be a great way to see how they handle the different contexts in which decisions are made.

The final element that is useful to examine when developing an inventory of roles is where the impact of decisions occurs. The impact can be internal (for example, this role has an impact on the overall profitability of the company), or it can be external (this role has an impact on lives in this community). This broadens the opportunity to test people in different contexts in which they need to make decisions. The most creative problem solver who perfectly understands the future of the industry in the global setting may not be the best candidate for CEO if he or she has not operated in contexts where the impact of decisions has been tested. At the most basic level, one huge success as an inventor will not necessarily qualify someone to be the next head of R&D at Apple. To operate in that role would require someone to have been in multiple contexts where the impact of their inventions has been tested. This may seem obvious and a number of talent managers would claim that this is what they hire search consultants to ensure. Note that "contexts" and not previous job experience is to be considered.

The Demands of Today's Organizations Makes This an Exciting Time for Employees Who Have Potential to Grow

The organization that uses the three lenses for looking at potential, with a measured way of looking at risks of moving (what could derail progress), along with an inventory of positions where the organization can test potential is an exciting place for employees. A transparent look at what they bring to their roles and what could prevent them from being successful provides a clear path for development. Testing themselves against different role demands provides multiple opportunities for creating alternative career paths. For employees with potential, these should be factors that enable organizational longevity

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Chapter 12

Measuring Up for the Skills Revolution: Talent Assessment in the Human Age

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FROM THE RISE OF ROBOTS, GLOBALIZATION, AND MASS MIGRATION TO WIDER geopolitical uncertainty and the shock results of Brexit and U.S. elections, the human age[1] has arrived. The rapid pace of demographic, technological, socioeconomic, and geopolitical change worldwide is reshaping the world of work. The macroeconomic forces identified a decade ago—shifting demographics, greater individual choice, client sophistication, technological revolution—and their structural impacts are evident as predicted. Seismic shifts in the workplace are underway:

1. Skills cycles are shorter and 65 percent of the jobs generation Z will perform do not even exist yet.[2]
2. Up to 45 percent of the tasks people are paid to do each day could be automated with current technology.[3]
3. Nearly half of the subject matter students learn during the first year of a four-year technical degree will be outdated by graduation.[4]

The good news is that we have adapted to the evolution of the labor market before—from tellers to customer services, typists to word processors and personal assistants—disrupting, redistributing and recreating work is nothing new. The difference now is that the life cycle of skills is shorter than ever and change is happening at an unprecedented scale. We face a skills revolution[5] that will impact all organizations in all industries, with occupations, career pathways, and talent management practices undergoing fundamental shifts.

Learning Ready—Not Just Job Ready

Organizations are being challenged to rethink the way business is being done, especially when it comes to talent assessment and the strategies used to develop and nurture leadership pipelines. The leaders of tomorrow look very different from yesterday's leaders. The world of work is changing every day, creating a gap between traditional ideas of leadership effectiveness and what it actually takes to drive business performance in an increasingly digitized world. To develop these future leaders will require an open mind and assessment strategies to reduce the risk around talent decisions when hiring, developing, transitioning, and retaining people. The best way to prepare is to create the right blend of art and science in order to assess leaders' skills, abilities and knowledge gaps. This will help ensure that organizations remain competitive to attract and develop the best talent.

For HR leaders and people managers, the questions around talent assessment are profound. Many organizations continue to pay too much attention to academic qualifications and hard skills. Just because someone is graduate-ready when they obtain their education credentials does not mean that they are work-ready and it does not mean that they are the right fit for the organization in the future. It's time to hire for potential, as we face uncertainty in which skills will be needed for the future. Let's be clear, the only way to ensure agility is to start hiring people according to how quickly they can adapt and learn new skills.

Talent assessment strategies need to focus on three critical and related objectives. First, the identification and development of agile leaders who can navigate change and build an organization capable of constantly reinventing itself. Second, identifying individuals with *learnability*, that is the desire and ability to quickly grow and adapt their skill sets to remain relevant for the long term. And third, *employability*—the ability to gain and maintain a desired job over the long term—will no longer depend on what individuals already know but on what they are capable of and willing to learn. The mark of highly desirable talent is skills agility rather than a specific skill set. As employers look to build a strong leadership pipeline, nurturing learnability and employability will be key to developing leaders ready to face the skills needs of tomorrow.

Return on Assessment: Right Management's P3 Leader Model Uncovers High Potentials and Emerging Leaders

In the new skills revolution, culture is king. Developing an agile workforce depends on identifying and nurturing leaders who can build a culture centered on continuous learning and flexibility. Formulating a strategic intent to change the culture is essential, but communicating that intent without proper preparation can be detrimental. Introducing the radical strategy of an adaptive workforce in a culture rooted in hierarchy and rigid jobs structure will fail. People will default to their known culture ("the way we do things around here") and go about their work lives as before.

Finding Today's Model for Tomorrow's Leaders

Identifying leaders capable of effecting profound cultural change begins with the right model. Many companies are trying to function with outdated leadership models that were created five, ten, even twenty years ago—constructs that are out of touch with today's employment and skills landscape. Assessment methodologies must be aligned to a new model of leadership—one that focuses on leadership enablers and coachable capabilities that form the foundation of effective leadership by equipping leaders to add value in a business environment where the life cycle of skills is shorter than ever and change is happening on an unprecedented scale.

From research and discussions with more than 400 global leaders from academic to traditional global business focus, Right Management's P3 leader model defines a core set of critical attributes that are strongly predictive of a person who will be effective in managing today's leadership challenges.

The stronger the individual is with these four **leadership enablers**, the greater the potential to thrive in leadership roles, given appropriate development and support:

Enabler	Description
Brightness	A person who is intellectually curious and a sharp, continuous learner
Adaptability	A person who is comfortable with ambiguity, complexity, and uncertainty
Drive	A person who has the desire and energy to be successful
Endurance	A person who is highly resilient and tenacious, and possesses great stamina

Table 12.1 Four Leadership Enablers

Assessing an individual's strengths and weaknesses against these four criteria not only identifies the best candidates for leadership roles, but also helps map out a development program to support high potentials and all talent levels and build their strengths.

Leadership enablers are those traits you either have or do not. They put individuals' leadership DNA under the microscope to see how they are hotwired. These are the *coachable capabilities* aligned to specific and measurable business-driven outcomes.

1. *Unleash talent:* Operate with integrity to manage, develop, and inspire individuals.
2. *Accelerate performance:* Build strong teams and a flexible infrastructure that enables the organization to perform at its best.
3. *Dare to lead:* Have the courage to make decisions, take risks, challenge the status quo, and seize opportunities.

Optimizing human potential is the most important determinant of organizational success and growth today. Individuals that possess these leadership enablers and coachable capabilities will be more effective in achieving critical talent-focused business outcomes by:

- Instilling a sense of purpose that animates individual contributors as well as the organization at large.
- Creating an engaged and involved workforce in which individuals feel they can grow and succeed.
- Providing employees with real opportunities to broaden their skills and develop meaningful careers, both within and beyond the organization.
- Cultivating a diverse, people-oriented culture that rewards respect, trust, transparency, and collaboration.

A Brave New World? When Updated, Traditional Methods Still Deliver Proven Results

The science of assessment continues to grow in sophistication, scope, and accuracy. Advances in big data and analytics that allow us to reliably connect those behaviors to business outcomes complement our deeper understanding of how personality factors can predict behaviors. It's a very exciting time. But in that excitement, we shouldn't forget or put aside proven instruments of talent assessment that continue to demonstrate validity.

Even in the brave new world of talent assessment, the five tried-and-true techniques listed below have tremendous utility but—and this is a big caution—only if they are dusted off and adapted to modern business expectations and leadership situations. And that is exactly what is happening. Pairing technology tools with advanced insights into human behavior, we now can conduct personality assessments, interviews, simulations and performance appraisals in ways that deliver far greater value within shorter time frames—meeting the demands of today's geographically dispersed, time-challenged, and budget-pressed organizations.

Traditional talent assessment methods are becoming sleek vehicles designed for faster, keener insights into who is likely to perform well in leadership roles and which capabilities should be developed to help ensure their success.

Personality Values and Derailers

Hogan Assessments, one of our strategic assessment partners, has been successful in reducing its gold-standard questionnaire from 300-plus questions to about 40 questions while maintaining its high validity. An exercise that used to take an individual an hour now takes about 15 minutes, and the results are available online instantaneously. The streamlined questionnaire reflects the advances possible when you can leverage data sets of answers from more than 500,000 individuals in 200 occupations worldwide. Knowing more, you can frame fewer, more relevant questions that are proven to elicit answers predictive of job performance and leader effectiveness in the future in less time and with better user engagement.

Cognitive Abilities and Development

The use of adaptive questionnaires to assess cognitive abilities and development is revolutionizing talent assessment. Rather than working their way through a large, static set of questions, applicants answer the first question which, in turn, determines the next question, and so on. Using advanced statistical techniques, huge data sets, and lightning-quick analytics, the questionnaire adapts to each answer to serve up the next, most appropriate question. This process hones in on nuances quickly and enables more sophisticated performance ranking in less time.

Interview

The interview is the most frequently used method of leader selection. Interview methods frequently suffer from lack of objectivity: there is too little analysis of the role being filled, too little structure, and too little attention paid to assessing applicants in a systematic way.

In a 2008 study that examined the impact of a nonobjective approach to interviewing, researchers found that the perceived quality of the applicant's handshake correlated significantly with the interviewer's rating of his or her job readiness.[6] Firm, strong handshake = fit for the role. Anything else was suspect. Physical attractiveness is another critical marker for many interviewers.[7] As is having a "nice voice."[8] Overall, this approach results in a "similar to me" bias in which applicants who share the attitudinal, biographical, gender, and racial characteristics of the interviewer tend to get favorable ratings.[9] This, of course, results in a workforce that lacks diversity of gender, age and culture, and nurtures an echo chamber rather than a dynamic force for innovation. So, how do you address this?

- Augment interviews with the personality and ability testing described above to uncover traits validated for predicting leadership effectiveness.
- Use validated questions that focus on an applicant's past behaviors rather than accomplishments. Draw on libraries of questions aligned to our model of leadership enablers and capabilities so that interviewers can elicit answers that predict critical traits, such as adaptability, endurance, and learnability.
- Conduct interviews in a structured way that reduces variations among assessors.

360-Degree Feedback Assessment

In the feedback assessment, evaluators solicit feedback from those who work with the candidate in his or her current role, typically managers, peers, and direct reports. Similar to the interview process, people involved in 360-degree assessments tend to factor in nonreliable criteria when they make decisions on how to rank the leader. Do I like him or her? Does the leader value me? Should I settle an old score? Having vast databases of leader performance metrics now mitigates this bias and more sophisticated ways of creating standardized questionnaires that drive respondents to focus only on actual behavior. For leadership Development development clients it's important to use 360-degree assessments to assess leaders with desired P3 capabilities and identify and accelerate areas for development.

Business Simulation

Business simulation is a powerful tool for testing the skills and leadership potential of executives and midlevel leaders. At Right Management, this "day in the life" experience is customized to the client's current business issues and runs participants through real-world challenges in order to identify individual strengths and areas that need development. What has changed in business simulation is the focus and speed. The activities are aligned expressly to the leadership model in order to deliver the most meaningful insights on current behaviors and areas for improvement. Simulations are filmed. Leaders do not have to spend time traveling to an assessment center, and assessors can work remotely to replay and pause action in order to investigate behaviors more closely. Business simulation today is more time- and cost-effective while delivering a richer assessment to guide leader selection and development.

It's important to note that in addition to leader selection, assessment tools are equally powerful in accelerating leader development. Helping a leader identify areas in which he or she needs to grow to be more effective will shorten the time to self-awareness. Leadership development is a journey. Using assessment to help map that journey can help you get to the desired outcomes more directly and effectively.

Data Talks: How to Use Assessment Data to Find and Develop the Talent You Need

Put simply, assessment means using data or experience to make a decision. Each of us unconsciously performs hundreds of on-the-fly assessments every day. How do I manage this meeting to ensure alignment? What skills do I need for this new role? When is the safest moment to pull out into traffic? What type of person will I be compatible with? Which line will be fastest in the grocery store? What is the mood in my household when I get home?

Data based predictions are embedded in our increasingly digitized culture. On social media and online shopping sites algorithms that use our past behaviors to create personalized experiences customized to our revealed preferences shape our experience. They can predict how we will perform because they interpret the massive amount of data that defines our preferences and behaviors.

In talent management, behavioral-based assessment methodologies have great value in career management. Subjective appraisals and feedback on leadership candidates are valuable and have their place in the assessment process. When used as the sole measure, however, they often produce candidates who are high performers in their current roles but may lack true potential—the drive, curiosity, agility, and endurance—to be effective in higher-level leadership positions. Assessments can be used to create awareness in employees about areas to develop, job role fit, as well as highlighting strengths. They support decision making by uncovering behavioral data that will help to identify the greatest potential for leaders, and provide guidance on how to enhance their development. Talent assessment to predict success in leadership roles works best when it is based on observable, testable behaviors.

By using objective, standardized assessment processes to guide decisions around selecting, training, enabling, and promoting talent, your organization will be in a better position to:

1. Make effective decisions about strategic workforce investments and eliminate wasteful spending.
2. Find individuals capable of quickly mastering job requirements two levels higher than their current position—the definition of high potentials—and funnel them into accelerated leadership development programs.
3. Identify a core team of individuals who exhibit the leadership styles and skills associated with success, and will drive a culture that mirrors their own values.
4. Build a diverse, gender/ethnic/education/age-neutral organization united by a shared commitment to performance excellence, because subjective decision making in promotion and selection processes has been eliminated and biases that reinforce discrimination no longer have a place.

This last point is particularly important. Diversity, integration, and inclusion are a social and economic priority. Organizations with inclusive cultures have 39 percent higher customer satisfaction, 22 percent greater productivity, and 27 percent higher profitability than those that are not inclusive.[10] It is not just the right thing to do; it makes clear business sense.

How to Select for and Nurture Learnability

In today's skills tevolution, industries are reinventing themselves, using new technologies and seeking new skill sets for success. These transformations bring opportunities, provided you can identify those with high learnability and help people upskill and adapt to a fast-changing world of work. New assessment measurements are giving organizations the means to identify individuals who are best suited to thrive in a dynamic work environment, to fast-track the upskilling and reskilling of existing employees to meet new demands, and to empower employees with greater self-knowledge so they remain relevant and employable in the future.

Learnability Quotient™

Learnability is the desire and ability to quickly grow and adapt one's skill set to remain employable throughout one's working life. But employees all have different learning styles. Understanding how employees are "wired" to take in, process, and act on information is critical to determining the optimal way to develop and engage with them.

The Learnability Quotient™ represents a new way for organizations to assess the learning types of their employees. Developed in partnership with HoganX, the Learnability Quotient is a web-based visual assessment that looks at three measures:

- *Intellectual:* How motivated or willing is the individual to learn or understand things better?
- *Adventurous:* Does an individual have an intrinsic desire to explore and try new ways of doing things?
- *Unconventional:* Is the individual willing to question the status quo?

Learnability Quotient scores are reviewed in the context of the job role to evaluate how the score fits with what the role requires. It provides insight to individuals on how to seek and foster ongoing learning and provides insight to employers on how an individual will fit with the profile of a specific role; for example, you don't necessarily want an adventurous CFO, unless your organization is undergoing transformation. It also yields insights into:

- Understanding the predominant learning types of the workforce and how to tailor development at an organizational level.
- Identifying where to focus developmental resources.
- Gaging individual motivation for self-development and appropriate activities.

For the individual, the Learnability Quotient assessment can lead to a better understanding of their learning type so they can take the most productive approach to their career progression.

Mobility/Employability Assessment

While the Learnability Quotient measures a person's learning type, it does not, by itself, predict future job performance. A mobility/employability assessment comes closer to that "holy grail" of assessment by measuring the psychological factors associated with people's fit in their job role and work environment. This assessment determines employees "fit for purpose," meaning how well are they suited in terms of social and interpersonal skills, capabilities and expertise, and ambition to succeed in the role for which they are being considered. Or, if necessary, would they be better fit for different employment? Specifically, this assessment tool looks at:

- Social/interpersonal compatibility: How rewarding is it to deal with this person?
- Abilities and expertise: How able is he or she to do the job?
- Ambition, work ethic, drives: How willing is he or she to work?

Assessing individuals against these criteria not only helps identify high-value talent, but it can assist leaders in creating a mobile, agile workforce—one composed of "highly employable" individuals who are willing and able to lead transformation and adapt to changing demands as they occur.

In addition, the organization can use the candidate profiles to enhance employee retention through tailored development and career planning, improve employee mobility by aligning capabilities and potential to business gaps, and reduce talent acquisition costs. Individuals, in turn, gain information in key aspects of employability to enhance their self-awareness, improve their job/career match, and guide them to optimal development opportunities.

This is the near future for all assessments. From job boards and career portals to internal assessment methodologies for applicant identification and tracking, all workforce assessments in the future will be based on nurturing employability.

The Future of Workforce Assessment in the Human Age

Assessment is rapidly becoming more virtual, data driven, and multidimensional. Single correlations based on a lengthy list of questions have given way to super-large database technologies that enable us to predict future job performance and behaviors based on multiple leadership dimensions within seconds. The youngest generations in the workforce are looking for shorter and faster assessment methods, but with scientific backing and the coaching to get to the next level.

The expectations for leadership are evolving too. Core capabilities are rapidly moving away from "expertise and control" in favor of a role that centers on facilitation and creating a shared vision. Leadership assessment methodologies and effectiveness measurements will need to follow suit. Leaders will have to be prepared to guide complex, value-created networks; they will have to own and communicate a distinct vision of where a project is going to lead; and they will have to create a culture that engages, empowers, and provides growth opportunities for the most-wanted talent. In the human age, leadership assessment will be more data-driven and results-oriented than ever.

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Part III

Talent Management Programs

Chapter 13

Integrating Succession Planning and Career Planning

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IN ORDER TO STAY OR BECOME COMPETITIVE, ALL ORGANIZATIONS MUST ADAPT THE elements of their talent management program to the multitude of forces that are constantly disrupting their business environment. Elements of these programs are variously called succession planning, leadership development, workforce planning, talent management, or career planning. Given the pace of change, it is important for leaders to understand: the specialized nomenclature associated with succession planning and related fields; the reasons for growing interest in them; how a fast-paced changing environment impacts these programs; what best practices are evident in succession planning and career planning programs; and why and how can such programs be integrated into their organizations. This chapter addresses these questions and explores strategies to develop and implement talent management programs that help workforces innovatively adapt to rapidly changing business scenarios.

Defining Special Terms

It is easy for managers and employees alike to grow confused over a dizzying array of special terms used in succession planning, career planning, and related fields. It thus makes sense to begin this discussion with a few definitions to clarify these terms:

- *Replacement planning* is the process of identifying emergency backups for key people or key positions. When individuals are listed on replacement charts, they are not guaranteed promotions; rather, they are identified to serve in an acting capacity long enough for an organization's leaders to conduct a proper search, from inside and outside the organization, to find a qualified candidate.
- *Succession planning* is the process of developing the talent already existing in the organization for future deployment.
- *Succession management* is the daily process of cultivating future talent through coaching, mentoring, feedback, counseling, and development.
- *Career planning* is the process individuals go through to clarify their future career goals and aspirations and establish strategies to achieve them.
- *Career management* is the process organizations go through to clarify the relationships of jobs to each other.
- *Talent management* is the process of attracting, developing, retaining, and deploying the best people (see Rothwell, Jones, Kirby, and Loomis, 2012).

- *Human capital management* involves managing the organization's people, but it also implies the

- *Human capital management* involves managing the organization's people, but it also implies the growing financial importance of the creativity and innovation that humans bring to achieving and sustaining competitive advantage for their employers.
- *Workforce planning* is the process of comparing the match between the collective talents available to an organization (supply) and the talents needed by the organization (demand) to achieve its strategic objectives.

Reasons for Growing Interest in Succession Planning and Career Planning

Innovative technology is impacting the employees and work dramatically. This will require organizations to factor the impact of these elements into their talent management programs. "The world of work was changing yet there wasn't a clear description of what that change looked like or what impact that changes might have. Time and time again we hear that employees work in new ways, that managers are using outdated approaches, and that organizations have to change the way they operate" (Morgan, 2014, p. xv). Based on interviews with thought leaders who range from chief learning officers, to distinguished professors, Morgan (2014) identified some key trends and shifts that will impact our talent management programs:

- *New behaviors:* With the use of social media and the advancement of information technology, the consumer/customer is more directly connected with companies. Organizations are continuously rated and assessed based on customer service. As a consumer we can rank and provide feedback based on our immediate experience. Also as an employee we are able to give feedback that can be used to rank organizations. For example, Glassdoor, a website universally available, ranks companies by voluntary anonymous reviews given by current and former employees who weigh in on such areas as overall employee satisfaction, compensation and benefits, career opportunities, work-life balance, culture and values, and quality of the company's brand and reputation.
- *Technology:* Technology is transforming the workplace. We are becoming more collaborative; the work environment is becoming more flexible with flextime and flexes space. The work is changing through automation, robotics, software robotics, and now artificial intelligence.
- *Multigenerational workforce*: Employers, dealing with employees from multiple generations, face special challenges as a direct result.
- *Mobility:* With modern-day smartphones and tablets, lugging a lot of equipment around is no longer an issue. Mobile technology allows employees to use company data and resources without being tied to a single location. Employees can take their offices with them when they are working in the field—keeping them in touch while improving productivity.
- *Globalization:* As more companies have access to overseas companies that offer outsourcing, wages have changed for many employees. This has affected many employees in the United States as well as other large countries as more companies embrace the outsourcing trend. As globalization becomes more prevalent, companies deal with increased cultural diversity within the workforce. Cultural, religious, and ethnic diversity in the workplace presents a need for more employee training and development (Rothwell, Stopper, and Zaballero, 2015a).

Other factors can mitigate the prospective loss of people to retirement. One is downsizing, which can reduce the number of available positions. A second is immigration, which can reduce the number of available openings for all citizens. A third is outsourced offshoring, which can also reduce available positions in the United States and in other high-wage countries. It is nearly impossible to calculate the exact impact of offshoring, but it is clear that both high- and low-wage jobs have been outsourced to lower-cost venues such as China, India, Thailand, Malaysia, the Philippines, and other nations. Against this backdrop, it is small wonder that many people speculate about the future. Will they be prepared to meet the challenges in their careers? If they are employed, will they have a job tomorrow; if they are unemployed, what it will take for them to find and keep a job?

Organizations involved in talent management activities must consider the following program elements.

Disruptive Talent Management Strategies

Disruptive competitive environments gave birth to disruptive talent management strategies. The latter term refers to strategies for not only surviving change, but also thriving during change. This means that a premium will be placed on individuals with skills and attributes that are entrepreneurial, adaptive, and risk-oriented. These people will also have a strong capability for applying critical thinking techniques. This basket of proficiencies will give them the potential to revolutionize new ideas and approaches.

Why and How Succession Planning and Career Planning Programs Should and Can Be Integrated

Succession planning helps to build the bench strength of the organization to meet future talent needs (Rothwell, 2015). Career planning gives individuals the ability to compare their current competencies to those needed for the future. The same model that works for succession planning can also guide career planning (Rothwell, Jackson, Ressler, and Jones, 2015). The key difference is who makes decisions. In succession planning, the organization's leaders make decisions about the future talent needs of the organization and how to develop people in line with those needs. In career planning, individuals make decisions about their future goals and aspirations inside (or outside) the organization. Both programs require clear descriptions of current job duties, competencies, performance requirements, future competency requirements, ways to assess promotion potential to assume higher-level responsibility, methods of developing talent, and evaluation strategies.

Launching both succession planning and career planning at the same time can help to establish a "what's in it for me" for individuals while helping the organization to build bench strength in line with future talent needs. A particular selling point of doing both is that career planning creates pressure from the bottom up to offset leadership complacency in addressing talent needs. While leaders may not be aggressive about preparing their successors because they may wish to "ride it out to retirement with a minimum of fuss and bother," they tend to find that their most talented, aggressive reports may demand proper grooming and mentoring (Rothwell and Chee, 2013)—or may look for more promising opportunities elsewhere.

Best Practices in Succession Planning and Career Planning Programs

What should the components of an exemplary succession planning and career planning program be? The answer to that question depends on which organizations are benchmarked, of course, and some variations do exist by industry, by national cultural context, and by organizational size. But it is safe to say that best-practice organizations do use a strategic model or roadmap to integrate the program components of succession planning and career planning. An example of such a model or roadmap is depicted in Figure 13.1. The model is described below.

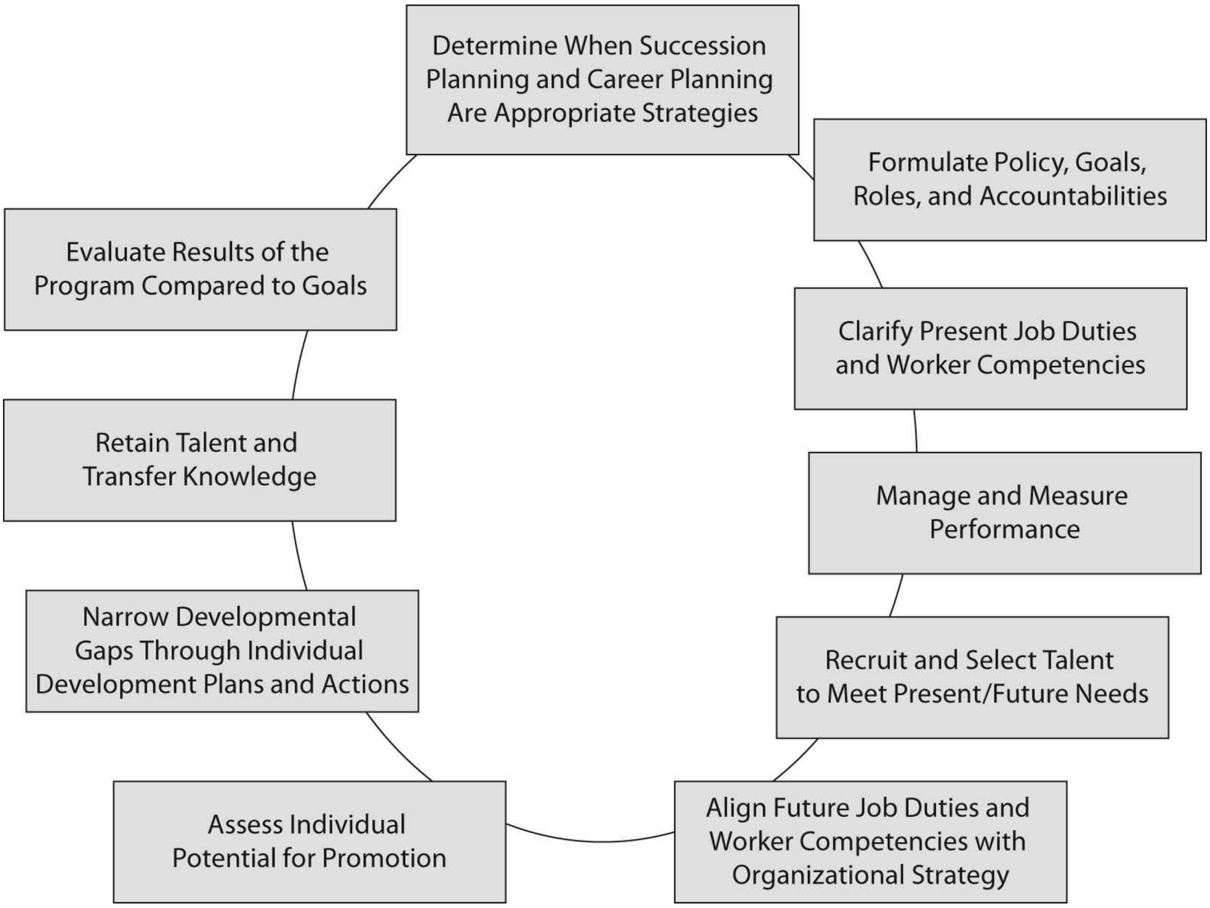

Figure 13.1 A Model for Integrating Succession Planning and Career Planning

Determining When Succession Planning and Career Planning Are Appropriate Strategies

It is worth emphasizing that neither succession planning nor career planning is a panacea. Managers sometimes request succession planning programs when they are worried about the loss of experienced staff. While succession planning can help to focus attention on the systematic development of internal staff, it is not a one-stop strategy for all talent issues. Organizational leaders are better advised to ask the question "How can the work be organized and accomplished best?" (Rothwell, Graber, and McCormick, 2012). In short, there are many alternatives to internally developing talent. They include changing how the work is done by relying on temporary or contingent employees, outsourcing the work, changing the responsibilities of leaders or employees, simplifying the work, and many other such approaches (Rothwell, 2015). Succession planning and career planning are components of, but not substitutes for, comprehensive work and workforce planning.

Formulating the Proper Talent Management Policy, Goals, Roles, and Accountabilities

Inexperienced people who set out to implement succession planning and career planning programs too often assume that executives are of one mind on why they want such programs. However, this is usually not the case. A major reason is that senior executives wear two hats: one as leaders of their own units and another as team members to govern the organization. It sometimes happens that leaders do not separate these responsibilities, thinking only of what is good for their units rather than for the business as a whole. For this reason, an excellent starting point for any succession planning and/or career planning program is to write a clear policy that describes why the organization is undertaking the programs, what specific measurable goals are to be achieved from them, what roles from different stakeholder groups will play (such as the HR department, senior leaders), and how stakeholder groups will be held accountable for achieving results in line with measurable goals. An important aim is to crystallize leadership thinking.

Clarifing Present Job Duties and Employee Competencies

Talent can be developed only when it is clear what work people are expected to do and what characteristics are apparent and desirable in the existing talent inventory of the organization. To clarify what work people do, the organization should have current job descriptions. To clarify what kind of people should do the work, the organization should clarify the competencies essential to successful or exemplary job performance (Rothwell, Graber, Dubois, Zabellero, Haynes, Alkhalaf, and Sager, 2015).

It is, of course, assumed that the core competencies required for each level of management may be related but different. To determine individual development needs, the organization's leaders need some objective way to assess individual promotability with respect to the requirements at higher levels.

Managing and Measuring Performance

A performance management system is essential to hold people accountable for what their job descriptions, and the competency models at their current levels of responsibility, require. The best performance management systems measure individuals on results (outcomes) and behaviors (linked to required competencies). Additionally some organizations are also experimenting with measuring people on how well they behave ethically when compared to the requirements of the organization's code of conduct and on how well they behave compared to the organization's stated values.

A performance management system is essential to ensure that people who are eligible for promotion are at least performing their current jobs in a satisfactory manner. After all, nothing destroys the credibility of a promotion system more than promoting those who are failures at their current work. But, by the same token, outstanding performance at one level is no guarantee that individuals can meet the challenges at higher levels of responsibility. As a consequence, an effective performance management system is necessary to give people feedback on their current performance but is not robust enough by itself to measure potential for promotion.

Recruiting and Selecting Talent to Meet Present and Future Needs

An organization cannot always rely on internally developing talent as the sole means by which to find the right people for the right work at the right times. For this reason, recruiting and selecting talent from inside and outside the organization is necessary. Job posting, a common method of sourcing internal talent, should be aligned with the succession and career planning programs of the organization by ensuring that the same criteria are used to recruit and select people from inside as those used to select people from outside the organization. At the same time, the organization should use a range of approaches to recruit and select people from outside.

Aligning Future Job Duties and Employee Competencies with Organizational Strategy

Neither job duties nor competencies are static. Both will change to accommodate efforts to execute business strategy. It can be argued that one reason so many strategic plans fail is that they do not sufficiently articulate the results/behavior requirements at all levels and in all departments to implement those plans. For that reason, both job descriptions and competency models should be reconsidered in light of what work and employees will be needed over time to implement strategy. Of course, it also takes time to develop people. While many organizations attempt to use acceleration pools or other methods by which to expedite talent development, it must be clear what people will do and what kind of people will be needed in the future to implement the organization's strategy successfully. Such information must also be communicated to employees so that they have sufficient information to plan career goals and initiate their own career-enhancing strategies.

Assessing Individual Potential for Promotion

It is not enough for an organization to have a workable performance management system if the goal is to assess individuals objectively for possible promotion. After all, success at one level, or in one's current job, does not guarantee success at higher levels. To believe otherwise is to fall prey to the so-called Peter Principle (Peter and Hull 1969), which states that people are rewarded for their success with promotions and continue receiving them until they reach a level where they fail to live up to the requirements. They are then plateaued at their level of incompetence.

Organizational leaders are well advised to try a combination of assessment methods to explore possible promotability (sometimes called by the vague term "potential"). In doing so, one factor to consider is the required future work and competencies needed to implement the organization's strategy.

Many approaches can be used to assess potential for promotion to the next level or beyond. Among them (Rothwell, Stopper, and Zaballero, 2015b):

- *Global manager ratings.* Managers rate the promotability of individuals on special forms or in performance reviews.
- *Manager ratings with criteria.* Managers are invited to rate the promotability of individuals against the competencies and behaviors required at higher levels on the organization chart.
- *360-degree assessments.* A superior and peers rate individuals and subordinates on competencies and behaviors required at higher levels of responsibility.
- *Assessment centers.* Individuals are subjected to simulated challenges like those faced at higher levels of responsibility and are rated by trained people at or above the targeted levels.
- *Psychological tests.* Individuals are rated using robust, five-factor personality tests.
- *Portfolio assessment.* Individuals are invited to supply work samples like those prepared at higher levels of responsibility, and the samples are "graded" against measurable standards prepared in advance.
- *Step-up assignments.* Employees are invited to assume responsibility for a duty normally carried out by a superior; the employees are then coached and rated by that superior.
- *Internal or external rotations.* Employees are rotated temporarily to see how they could perform at a higher level of responsibility. Rotations may be inside the organization or else to nonprofit or community organizations. Ratings are used to assess potential.
- *Realistic job previews.* The immediate reports of supervisors are invited to rotate into the job of their boss while he or she is on vacation or out sick. A review is performed upon the boss's return to assess how well the employee performed the job and to pinpoint areas needed for future development.

Of course, culture does play a part in deciding how to evaluate promotability or potential. In some developing economies, for instance, an individual's status and perceived promotability hinges not on individual performance but on family relationships or political affiliations.

Narrowing Developmental Gaps Through Individual Development Plans and Actions

A development gap exists when individuals are objectively rated against the work expectations and competencies/behaviors necessary for higher-level responsibility. To narrow these gaps, many organizations use individual development plans (IDPs) to pinpoint developmental strategies to close the gaps. While sending people for training often occurs to managers first, the reality is that most development happens on the job and results from the work experiences to which individuals are exposed. For that reason, managers play a critical daily (sometimes called tactical) role in cultivating the organization's talent (Rothwell, Chee, and Ooi, 2015). IDPs help narrow developmental gaps, providing a basis for accountability of managers and employees.

Retaining Talent and Transfer Knowledge

Effective programs address both the retention of talent and the transfer of knowledge. Talent retention is often the least developed of succession or talent management strategy. While the reasons for that may be debated, the reality is that few organizations do as much as they could to retain talent. HR practitioners sometimes feel that it is the operating manager's responsibility to retain the best people, while operating managers sometimes blame HR for not maintaining competitive pay rates or monitoring working conditions that may prompt the best employees to leave. As many as 100 research-based best practices exist to retain talent (Rothwell 2007a).

Knowledge transfer, sometimes called technical succession planning (see Rothwell, 2011), focuses on retaining institutional memory and proprietary knowledge that can be lost when experienced employees depart organizations for retirement or for other reasons. It is technical because it centers on issues unique to the organization. Institutional memory refers to what the members of an organization have learned from experience as a direct consequence of living through experiences and participating in decision making. Proprietary knowledge stems from the lessons gained from experience that are unique to serving the organization's customers or building the organization's products. While some people regard the issue as an element of knowledge management, the fact remains that "what people have learned from their experience" is not always easily recorded or transferred. While computer-assisted knowledge management systems can help, they are not the only ways that knowledge can be transferred. Effective succession planning programs include knowledge transfer and guiding individuals to mentors who can help with knowledge transfer. Mentors can also be helpful in transferring professional contacts, an issue sometimes called *social relationship succession planning* (Rothwell 2007b).

Evaluating Program Results Compared to Goals

It is common for many managers to ask, "What is the return on investment from succession planning or career planning programs?" Better questions are, "What measurable results did the organization set out to attain based on business needs?" and, "How did the outcomes match the targets?" For instance, one concern of business leaders is meeting the needs resulting from pending retirements (in Western countries) or from explosive business growth (in Eastern countries). A second concern is the time it takes to fill positions that can be measured by the so-called time-to-fill metric (the elapsed time between the posting of a position and the first day that a successful applicant arrives on the job). A third concern is the quality of the match between posted requirements and the qualifications of the successful applicant. In short, the goals established for the programs should be measurable. It is then easy to monitor results. But if leaders are unclear about what results they want, it will be difficult to show results.

Organizations need both strategic and tactical models to guide the integration of succession planning and career planning programs. Strategic models focus on the "big picture," while tactical models guide managers on what they should do every day to cultivate talent while also getting the work out. Use the rating sheet in Figure 13.2 to compare your organization against best practices in integrating succession planning and career planning programs.

Directions: Use this rating sheet to compare your organization against best practices in integrating succession planning and career planning programs. For each item listed in the left column below, rate your organization in the right column. Use the following scale for your rating: **1 = Not effective; 2 = Somewhat effective; 3 = Effective; 4 = Very effective.** When you are finished with your rating, add up the scores in the right column and interpret the scores according to the guidelines below.					
How well has your organization integrated succession planning and career planning by:		Rating			
		Not effective	Somewhat effective	Effective	Very effective
		1	**2**	**3**	**4**
1	Determining when succession planning and career planning are appropriate strategies	**1**	**2**	**3**	**4**
2	Formulating program policies	**1**	**2**	**3**	**4**
3	Formulating measurable program goals	**1**	**2**	**3**	**4**
4	Formulating roles of key program stakeholders	**1**	**2**	**3**	**4**
5	Formulating accountabilities of all stakeholders	**1**	**2**	**3**	**4**
6	Clarifying present job duties	**1**	**2**	**3**	**4**
7	Clarifying present worker competencies	**1**	**2**	**3**	**4**
8	Managing present work performance	**1**	**2**	**3**	**4**
9	Measuring present work performance	**1**	**2**	**3**	**4**
10	Recruiting/selecting talent to meet present needs	**1**	**2**	**3**	**4**
11	Recruiting/selecting talent to meet future needs	**1**	**2**	**3**	**4**
12	Aligning future job duties with organizational strategy	**1**	**2**	**3**	**4**
13	Aligning future worker competencies with organizational strategy	**1**	**2**	**3**	**4**
14	Assessing individual potential for promotion	**1**	**2**	**3**	**4**
15	Narrowing developmental gaps through individual development plans and actions	**1**	**2**	**3**	**4**
16	Retaining talent	**1**	**2**	**3**	**4**
17	Transferring knowledge	**1**	**2**	**3**	**4**
18	Evaluating program results compared to goals	**1**	**2**	**3**	**4**
Total (*Add up the scores in the right column and place the sum in the box at right*)					

Scores	
72–55	Congratulations. Your organization is closely aligned to best practice.
54–37	Your organization is on the right path. Focus attention on improving items with lower scores.
36–19	Your organization is far from best practice. Consider improvements.
18	Your organization is far below average. Take steps to improve your organization's commitment to preparing bench strength.

Figure 13.2 A Rating Sheet for Comparing an Organization Against Best Practices in Integrating Succession Planning and Career Planning Programs

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Chapter 14

Succession Planning Challenges and Solutions

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OVER THE PAST DECADE, MANY ORGANIZATIONS AND CORPORATIONS HAVE implemented talent review meetings and succession planning to regularly discuss employee career paths and organization talent needs. This is a still a new risk management function for many organizations. Some organizations have found these processes to be highly beneficial, but others have not seen the results they were hoping to achieve. So the question is—what are keys to success and what are pitfalls to avoid?

Over the years in my global work with organizations of all shapes and sizes, I have observed common challenges, pitfalls to avoid, and keys to success. This chapter explores these challenges and provide ideas for avoiding or overcoming them.

Challenge 1: Managers and Employees Do Not Always Follow Through with Development Actions to Develop Successor Candidates

If managers and employees do not follow through with development actions for successor candidates, they will not be ready for positions when they become vacant, and the organization will likely then hire an external candidate and complain that succession planning doesn't work. This is the most common succession planning challenge I hear from human resource professionals worldwide. There is no one magic answer to this problem; but there are a variety of solutions that can work together to address this problem.

Solution: Always have business leaders discuss and agree upon successor candidates and development actions for successor candidates in talent review meetings. Simply putting successor names on a list without talent review meeting discussions and calibrations will likely result in an ineffective succession strategy.

Solution: Project the notes onto a projection screen during talent review-succession planning meetings, so all participants can see the development action items agreed upon to develop each successor candidate. This may require a scribe at the meeting to take notes. It is certain that if no notes exist from the talent review-succession planning meeting pertaining to development actions, lack of follow-through on these actions will definitely be an issue.

Solution: During the talent review meeting, ask a specific person at the meeting to take responsibility for a development action. For example, the meeting facilitator can say to the employee's manager, "Karen, could you take it as an action item to ensure that Harrison attends the Eagle Leadership Program by a target date."

If the group has already agreed that Harrison needs to attend this leadership program, then Karen is going to agree, and you have then obtained your first level of accountability. Additionally, if Karen doesn't agree to this, it is better to bring up the objection at the meeting, and the group can determine a solution to the obstacle. Then, in the notes that are being projected onto a screen for everyone to see, the action item will be documented with Karen's name and a target completion date.

Solution: Provide a summary of development actions to business managers and to the training and development department after the talent review meeting. Some organizations have a talent system that contains and tracks the development actions for successor candidates, but if this does not exist, then the talent review meeting facilitator will need to provide a summary of the development actions to each manager and to anyone else (such as a training and development department or professional) to enable everyone to follow through with the successor development actions. A few organizations even have the managers submit simple talent progress reports that document development action progress, in the same way that the finance department asks managers to submit regular budget variance reports.

Solution: Hold regular brief meetings to check on development action progress during the year. Identify a way to check-in on successor development action progress during the year—otherwise, these actions will fall below the radar screen as other priorities are pressing daily on business managers. At minimum, hold a six-month development action progress check meeting. As an example, we will now check with business manager Karen to ensure that Harrison did attend and complete the Eagle Leadership Program by the target date.

Solution: Provide incentives and consequences to increase accountability for development action progress. Do your managers receive financial incentives in their compensation and/or bonuses if they achieve revenue goals, and/or if they adhere to their budget and control expenses? Most companies do reward managers for the achievement of financial goals. So why not also reward managers for achieving talent goals? Certainly, if a manager is only rewarded for financial targets and not for talent development and succession targets, they will be focusing on those financial goals at the expense of the talent goals.

And what happens to managers who don't submit a budget each year? They would not receive the funds they need to achieve goals. So, if managers don't participate in succession planning and/or don't follow through with development actions, then when a position becomes vacant, they should not receive the talent requisition they seek.

We need to learn from our financial departments, who have achieved a high level of accountability in business manager behavior. Most people would say that it is completely unthinkable that a manager would say, "I don't have time to do budgeting this year" while it is unfortunately not yet unthinkable that a manager would say, "I don't have time for succession planning or development plans." So look at the methods your financial department uses to increase accountability to ensure budgeting actions are completed, and determine what methods can be adopted to increase succession results and talent development follow-through.

Challenge 2: Business Leaders Don't Understand the Value of Talent Development and Succession Planning

It is not surprising that many business leaders don't understand the business value of talent development and succession planning, as these strategies are often not included in business degree programs. So it is important as HR professionals to have patience and to provide training and talent tool kits for managers on these topics. Here are additional actions we can take to address this challenge:

Solution: Start your succession strategy with business goals rather than with talent goals and ensure that metrics have been identified in order to measure results. For example, maybe your business is opening new corporate sites in the coming years—the business need is to have managers who are prepared to lead these new facilities. This is your top talent-succession priority, and you will identify and develop a talent pool of successor candidates for these roles.

Or maybe you find that 30 percent of your executives will be eligible to retire in the next three years, and so succession planning at the executive level will be your first priority. Or maybe you have very high turnover in your professional level positions, resulting in a problem developing experienced professionals into first-line managers, so your first priority may be to create an emerging leader high-potential program to retain and to develop top talent professionals into new managers. You could then measure the results of this program by comparing the baseline turnover of the eligible employees *before* implementing the program and then continue to monitor turnover in this group to determine if levels are decreasing. Additionally, you can obtain the baseline metric of the internal fill of first-line manager positions *before* implementing a program and then monitor the internal fill (versus external fill) of first-line managers over time. The number of internal candidates filling these positions should increase, which can be translated into a return on investment resulting from decreased external recruiting expenses.

It is important to communicate business issues so that managers don't feel that they are just being asked to do "another HR thing" that they see as a waste of their time. Additionally, it is important to regularly communicate results and progress so that managers know that business and talent needs are being addressed.

Solution: Provide clear, written definitions and selection criteria for successor candidates, for high potentials, for key experts, for high performers, and so on. Maybe we think these terms are easy for everyone to understand, but in my experience, even experienced HR professional have trouble explaining the difference between a high-potential employee and a successor candidate, or explaining the difference between a high-potential employee and a high-performing employee. If the concepts and terms used in your organization's talent-succession strategy are not clear, this is a foundational problem that will affect the entire strategy. It is critical to provide training for the entire HR team (so all team members are answering questions from managers correctly and consistently) and to provide training for the business leaders.

Solution: Create a talent tool kit and an intranet site for business managers and the HR team to access information, definitions, and tools. Many organizations could benefit from creating a printed and/or online talent tool kit that managers can refer to as they are selecting and developing successors. The talent tool kit can be placed on a company intranet site and printed in booklet form for managers to use while they are traveling. This increases consistency (especially across large and global organizations), and it increases understanding of the talent review and succession planning programs.

Challenge 3: Adequate Resources Needed to Achieve Success in Our Talent-Succession Strategy Are Missing

Many organizations have more employees (and contractors) working to recruit external talent than they have working on internal talent development and succession strategies. As an example, an organization may have several full-time and contract recruiters who are working to hire a small number of external new employees, but the organization may not have even one full-time employee working to retain and develop thousands of internal employees. While external recruiting is an important business function, it would make more business sense to invest more people, budget, and systems into the *great* people you have already hired and who are already serving customers, rather than investing more people, budget, and systems into external people whom you don't even know!

Solution: Make the business case for the resources you need for your succession strategy by identifying the high costs of external recruiting. One of the first steps I take when working with clients on their succession strategy is to have them gather data pertaining to their costs of external recruiting. Sometimes we find that the organization is spending an excessive amount of money on external search fees, contract recruiters, executive hiring bonuses, and the like. We can make the business case that increasing the internal fill of leadership and executive roles even by a small percentage can pay for a talent management system, or for the salary of a new talent management professional to lead the succession strategy.

Solution: Explain the risks of not having a succession management online system to store and to access talent data. If you do not have a talent-succession system, you and your managers will e-mail highly confidential information and attachments that contain information about your top talent employees. There is risk in this, as employees who should not have access to this confidential information could accidentally obtain access, and even worse, the information could be e-mailed to your competitors or to external recruiters. So it is important to treat your critical talent information just as you would any other highly sensitive company proprietary data and protect it from getting into the wrong hands. An online talent management system enables setting up security levels by field and by screen so data are viewed only by those who should be viewing it.

Solution: Teach your external recruiting staff how to help lead succession planning processes. If you have employees who are currently responsible only for external recruiting, enlist them to learn internal talent management and succession planning procedures. This way, you have employees with competencies in both external recruiting and internal talent management who can move between these functions as needed.

Solution: Create a talent council composed of business leaders and HR professionals. Involve business leaders in steering of your talent-succession strategy by creating a talent council that meets regularly to make decisions about the talent-succession strategy and to communicate challenges and results. This group can then authorize resources needed to achieve the goals that the talent council agrees need to be achieved.

Solution: Communicate the part everyone needs to play to create success in succession planning. Talent management professionals must work with business leaders to establish the talent-succession strategy, goals, and metrics, and to create the communication tools and training. It is the managers' responsibility to follow through with their talent review meeting preparation actions, to participate fully in talent review meetings, and to work with employees to follow through on the development actions after the talent review meetings. And the employees are responsible for voicing their career interests and development needs, and for working with their managers to follow through on development actions. It is critical to communicate that successful succession management is a team effort!

Challenge 4: We Need More Skilled Talent Review-Succession Meeting Facilitators

Another common challenge is having enough experienced and qualified employees who are able to consistently facilitate talent review-succession meetings to meet the internal need to review hundreds or thousands of leaders and key experts across an organization.

Solution: Create internal talent review meeting facilitator certification that provides the training and practice that facilitators need to be confident, credible, and successful as talent review facilitators. First, these individuals need to participate in a training course to ensure consistent and thorough knowledge of all talent-succession strategic plans, project plans, tools, and concepts. Second, the fully trained individual should serve as a scribe at a talent review meeting that is being facilitated by an experienced or certified talent review facilitator. Next, this individual should serve as a talent review meeting facilitator with the experienced facilitator serving as a scribe in the same meeting, so the experienced facilitator can help if the less experienced individual encounters a challenge and needs assistance. The experienced facilitator can then coach the less experienced facilitator after their first meeting, providing feedback about what the individual did well and what the individual can do to improve. Finally, when the experienced facilitator determines that the new facilitator has reached an appropriate level of competency, the new facilitator will receive an internal designation as a talent review meeting certified facilitator.

This process can serve to (1) increase consistency in the facilitation of talent review-succession meetings across the organization, (2) increase the skills and the confidence of talent review meeting facilitators, (3) provide a way for employees to obtain new skills and to be rewarded for taking on new responsibilities, which also increases retention and engagement, and (4) increases the number of employees in the organization who are skilled and ready to facilitate talent review meetings.

Solution: External experienced consultants can be used to increase the organization's ability to facilitate more talent review-succession meetings across the corporation. Just as most organizations often hire external executive coaches to extend their ability to provide internal coaching services for their business managers, the organization should also consider hiring consultants to help facilitate their talent review meetings. An additional benefit of having external consultants facilitating talent review meetings is that they can be objective, and the internal HR professionals can participate in the meeting discussions, adding their data points rather than facilitating the meeting.

Challenge 5: We Don't Have Enough Career Movement Options for Top Talent and Successors

In smaller organizations, and in organizations with low turnover, a common challenge is trying to retain people and keep them challenged while they are "waiting" for a position vacancy.

Solution: Remember that succession planning is a risk management strategy—not just an employee replacement strategy. Therefore, we want to look at all the different ways we can work to protect the organization from talent loss, while also working to keep employees challenged. These strategies include:

- Placing top talent on cross-functional or other challenging project teams to help them continue to learn and to be engaged in the organization.
- Encouraging lateral career moves and financially rewarding employees for lateral career moves. Why do we only provide compensation (raises or bonuses) for employees taking on promotional career moves? It is riskier for the employee to take on a lateral career move because the employee has to move outside of his or her comfort zone; the employee will learn more in a cross-functional move, the employee will gain a broader understanding of the organization, and lateral moves provide more career options for employees, especially when promotional moves are not currently available.
- Enlist top talent to develop and deliver training courses pertaining to their areas of expertise providing visibility and a leadership opportunity, and an opportunity to share knowledge with others in the organization.
- Create job rotational or job shadowing assignments for employees to give them new experiences on the job. In a small company, two employees might be able to switch jobs for a period of time in order to

learn each other's job. This can serve to challenge employees and to increase their skills, while also reducing talent risk for the company because now each employee knows how to do another job, if called upon to do so.

- Ask employees, "What can we do to keep you?" Avoid guessing what actions might help retain employees because every employee is different. Discuss ways to retain the employee with the employee making them a partner in their career growth.

Everything worth doing in a business will have its challenges. The key is to continue to review your progress, look for improvements, and continue to enlist the cooperation and assistance of others to create success in your succession strategy. After talent review meetings, send the participating managers an online feedback survey to identify what they find valuable in the talent review-succession strategy and what needs to be improved. Create a talent council composed of both business managers and HR professionals to create the strategy and to monitor the progress, sending the message that this is an important business strategy. Measure and communicate progress and results. Join local groups and Linked In groups to participate in discussions with others who have an interest in succession planning.

Most of all, recognize the important work you are doing that benefits your organization by reducing talent loss risks and reducing external recruiting costs. Note also how you are benefitting benefits employees by providing career discussions with managers and development resources to expand knowledge and competencies that can lead to career growth and opportunities.

Chapter 15

CEO Succession Planning: A Process for Leading an Effective Management Transition

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THE CEO IS THE HIGHEST-LEVEL ROLE MODEL IN THEIR ORGANIZATION. THE BEHAVIOR of CEOs during the life cycle of their careers is symbolic of the positive employer brand they helped to create. It is critical therefore that as they near the end of their careers, they navigate the succession process in a way that is beneficial for themselves, their successors, and their organizations. It can be difficult to navigate this course and to pass on the baton of leadership, and not every CEO does it successfully. I am a behavioral change expert. I do not advise leaders in the strategic and technical issues of succession. My expertise is on the human or *behavioral* elements of transition. This is the focus of this chapter.

There are four basic steps in successful CEO transitions:

1. Prepare for the transition.
2. Choose a successor.
3. Coach the successor.
4. Pass the baton.

From my experience, much of what has been written about succession has been academic, while little has been written about the drama that occurs at every step of this process. CEOs, like the rest of us, including their successors, are human beings. During the transition process, many of the soft issues of humanity—relationships, ego, self-interest, and feelings—come into play. As humans, we may find that the steps outlined above are strategically simple concepts to grasp in the objective, but they can be emotionally difficult to navigate in the subjective.

Not alone in this identification, CEOs are very personally identified with their jobs. It's not just what they do; it is a very large part of who they are. This makes the transition process very personal. Further, it is not only personal for the CEO; it is personal for the successor, the other executives, the board, and the stakeholders whose lives will be impacted.

So how do CEOs proceed through the transition process with dignity and perhaps even pleasure? How do they ensure that their successor is in a good position right from the start? Let's go back to the steps outlined above.

Prepare for Transition

Transition is challenging, and very few leaders realize how difficult it will be. If the CEO has done a great job of carrying the baton of leadership, the organization may last long after he or she is gone. This longevity is highly dependent on the success of the leadership baton pass between CEO and successor. Both leaders must be ready for the pass or the organization will suffer.

During the process of succession, the rest of the world will continue revolving. Competitors will compete with the organization; short-term and long-term results will need to be produced. In addition, the rest of the world will be watching as the CEO slows down and the successor speeds up and the handoff is made. If the handoff is successful, the CEO will quickly disappear from view as everyone cheers the next baton carrier. The CEO has to be prepared for this. It can be hard on the ego.

In preparing to depart, leaders might ask themselves, “What legacy do I want to leave?” “Do I want to be remembered as someone who did a great job of developing my successor?” and, “Who worked to ensure that the organization would be successful after I departed?” While still carrying the baton and preparing for his or her departure, these considerations will help focus the process in the right direction.

Sometimes people don’t want the CEO to quit. When this happens, it can be nearly impossible to let go. Sometimes the CEO’s competitive drive won’t let him or her leave; this person wants to stay just a little longer to put the organization over the top.

These are traps that CEOs fall into when facing the final challenge of great leadership: passing the baton. Is the CEO ready for succession? The answer to this question may be the determining factor in the organization’s success after he departs.

Why is letting go of the CEO position so difficult? Simple. In addition to the adoration and accolades that success brings, there are a few basic reasons that this position is so hard to let go of:

1. *Wealth.* Money can easily become a personal scorecard. It may not seem hard to walk away from making money, but when making much less as “civilians,” some CEOs feel as though they are failing.
2. *Perquisites.* Perks like private jets, sporting events in the company box, and a dedicated staff of professionals are hard to give up.
3. *Status.* Being a CEO brings with it status, and a fear of successful people is becoming a “used-to-be CEO.” It just isn’t the same—and people know it.
4. *Power.* The sudden loss of power, the potential to influence and achieve big results that accompanies this position can be hard to take.

Leaders throughout history have had difficulty letting go of money, status, perks, and power. Without making peace with letting go, the CEO will not be able to hand off the position to her successor.

Then there are the softer perks that can be so hard to give up:

1. *Relationships.* CEOs enjoy most of their close coworkers, or they wouldn’t be close coworkers. These people are practically family, and the more they have been through together, the harder it can be for the CEO to leave.
2. *Happiness.* The CEOs I have met love being CEOs. They love everything about the job, from the people to leading to the challenges. CEOs will have to find new ways to achieve the happiness they felt as CEOs.
3. *Meaning.* CEOs are important. With direct impact on people and products, their work is not trivial. CEOs who pass the baton will need to find meaning in other ways after they leave the organization.
4. *Contribution.* CEOs develop people, create jobs, and generate economic benefit. They are most proud of these things. Not making a contribution can lead to emptiness. CEOs may crave contribution and will probably need to find another way to contribute when they are no longer CEO.

Choosing the Successor

One of the most important accomplishments any CEO can achieve, the development of a great successor, starts with an important decision: Should the successor be chosen from inside or outside the organization? Hiring from outside can be very expensive, especially if the new CEO fails. And while the damage to the organization can be severe when an external CEO fails—in negative press, company embarrassment, and so on—it is worse inside the company. The dismissed employees and cut resources that happen in order to pay off the external bad hire only reinforce the growing perception that CEOs are overpaid and board members are self-interested. The reputation of the former CEO, likely a major part of the selection process, will be tarnished by this failure, and this is not a great legacy to leave.

Another reason to hire from inside the company is that it sends a strong message about the organization’s leadership development program. It says that leaders are developing their people. It says that there are strong possibilities to grow into positions of leadership at the company, and that those supporting chosen successors will have opportunities for promotion as well.

CEOs who develop internal successors can be more assured that those successors will carry on their company vision—with a fresh perspective—as they may have spent months or years understanding and working within the current leadership vision.

Yet sometimes it isn't possible to hire from inside the company. For whatever reason, the business environment may eliminate this possibility. For instance, the board may need to send a message to investors and customers that the organization is headed in a new direction, and board members choose to do so by hiring an external CEO with credibility in the new area that no internal successor can match. Or perhaps the CEO must exit immediately, and there isn't time to develop a high-potential candidate quickly. Sometimes there just isn't time to wait for the internal leader to develop.

Coach the Successor

When the succession process requires an external coach, the CEO should be involved to make sure that the coaching process is successful. Before starting the coaching process, the CEO should ask himself three qualifying questions:

1. *Does he want this person to be the next CEO?* If there are any doubts, if the CEO doesn't really want this person to have the job, then he will not be very helpful in the coaching process, and the transition will probably not be successful.
2. *Will key stakeholders give this person a fair chance?* The CEO may think this person is perfect for the job, but if the board doesn't think so, it won't matter. If the answer to this question is no, the time spent coaching and developing this person will have been wasted.
3. *Does the person want to change?* The motivation for change has to come from inside the successor; or it will *not* happen because the CEO is a great coach. No one gets better because of the coach. People get better because they are willing to and work toward change.

Hiring an external coach is fairly simple. The CEO should ask the coach to describe her area of specialty and then analyze whether it fits the coaching needs of the successor. Is the successor in need of development in strategy, tactics, or behavior, or is the need in personal development or productivity? The coach should specialize in the area in which the successor requires development.

It's important to involve key stakeholders in the coaching process and in determining the successor's strengths and areas for growth. These are the people who will be involved with the successor long after the CEO has passed the baton, so it's important that they be on board for a number of reasons:

1. The new CEO will need their support to turn the succession into a success; help, especially early on in the position, to ensure a graceful transition will be required.
2. Stakeholders have ideas and perceptions of the company and what the next leader should be like that the current CEO may not have considered. These ideas will offer the incoming CEO a more well-rounded view of his role.
3. The CEO is not the only one whose input matters. The successor will learn a lot more when she gets coaching from key stakeholders. Stakeholders should represent a variety of different perspectives—board members, peers, direct reports, and in some cases customers and suppliers. The CEO should list the relationships most important to ensuring success in leading the company and then make sure that the names on this are on the feedback list for a successor.
4. Stakeholders who are involved in the coaching process are more likely to become psychologically invested in helping the new CEO succeed. In addition, it helps the successor and stakeholders build effective relationships that will be in place long after the previous CEO departs.
5. Positive indications of change from many key stakeholders are much more valid than a positive indication of change from one person—even if that one person is the CEO.

When reviewing feedback, which is often in the form of 360-degree assessments, the CEO should look for trends. If areas of improvement show progress, the candidate may be a person who will work to get better. If the scores don't improve, the person may not be the best candidate.

The CEO should consider the business environment when these assessments were made and feedback given. Was it during a difficult turnaround when decisions had to be made that didn't please employees? In these cases, 360-degree feedback scores may well suffer.

The CEO should look for key patterns. What areas of strength and areas for improvement will make the most difference in bringing the candidate into the best position to become a great CEO?

Personality tests and organizational surveys can be useful. Anecdotal feedback can also be used, though a very common error CEOs make is to be overreliant on this type of feedback. The CEO should consider the source when accepting this type of feedback and be careful not to let one event negate years of evidence.

After gathering feedback and suggestions, the CEO may start the coaching process with a goal-setting session. Working together to determine key areas for behavior change will help make the most of the transition and will help the successor candidate develop the skills and build the relationships for becoming a great CEO.

The most important variable in achieving positive, lasting change is follow-up. And the most important follow-up is not the CEO following up with the successor; it is the successor following up with key stakeholders (Goldsmith and Morgan 2004). The successor will acknowledge areas of development and then ask stakeholders for ongoing suggestions for future improvement. The CEO coach can reinforce these ongoing dialogues by asking the successor whom she talked with, what she learned, and what she is going to do about what was learned.

Pass the Baton

When the successor is ready to move into the role of CEO, the CEO will finally have to go. The CEO may be tempted to stay on the board of directors or in some other capacity. It is best for the CEO to just go if the successor is going to be successful. Hanging on is not helpful.

The best thing the CEO can do is show integrity on the way out by doing everything possible to ensure that the next CEO is successful. This means not talking with the press disparagingly about the successor, especially if he ultimately is not successful. It's best to exit gracefully, and even if other people don't recognize it, the successor will. In turn, this fortunate person will have been taught one final lesson from her predecessor: How to pass the baton of leadership smoothly and successfully when the time comes.

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Chapter 16

Building a Development Culture: Everyone Is a Stakeholder

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IN THIS ERA OF SELF-ACCOUNTABILITY, EVERY ORGANIZATION MUST TAKE A LEADERSHIP role in developing individual resiliency by making career development a priority. There will be times of not knowing. Leaders must convey a message of solidarity. In the midst of uncertainty, it is critical to reach out to all levels and work together to achieve deadlines and solutions. In developing a more robust career development process and ultimately transforming a culture, everyone is a stakeholder. So here's the challenge: what step(s) will you take now to build career development and growth in your organization? Organizations, managers, and employees alike want a career culture where employees are in charge of their own destiny, feel in control, and seek to do meaningful work. To make that happen, it will take new, flexible, career options, future-focused thinking, and professionals at all levels who are committed to their own learning.

The Changing Face of Career Development

It all used to be so predictable—we studied one or more areas of interest, settled into an organization that could use our talents, worked diligently to move up the corporate ladder, and collected a gold watch at the mandatory 65-year retirement age.

However, the complex interplay of social, economic, technological, and legal developments that have appeared during the past few decades has radically disrupted this long-standing pattern. The pressures of globalization, a world that has become flat, swift and chaotic economic shifts, and exponential growth in technology advances are now the new normal.

The nature of work today is very different from what it was several years ago. Human resource departments are charged with filling the talent pipeline with limited budgets, fewer resources, and less time to execute what they are charged with. At the same time, they are tracking regrettable losses, satisfaction indicators, and individual development plan (IDP) progress. Business leaders and busy managers are turning to human resources for quick answers and even faster solutions to talent management challenges as they are being held accountable for growing the talent in their department.

Practices must be put into place that align the talent of an organization with the strategic direction of the business. When careers are aligned with core business principles, employees take on greater self-accountability for career, and connections foster strength across the organization.

On the organizational level, human resource leaders look to identify and align with the organizational mission and strategy; evaluate organizational change and how it impacts the workforce; track and monitor emerging trends, and understand their impact on both the industry and careers within the organization. In addition, they will need to educate members of the workforce to take responsibility for their own careers and be willing to coach one another.

Within human resources, there is a need to respond in a timely manner to change as it occurs; ask for

Within human resources, there is a need to respond in a timely manner to change as it occurs; ask for opinions; value and respect diverse points of view; create a brand reputation, market to wider career audiences, and develop enrichment options that support career choices. It also demands the creation of an infrastructure that supports self-motivated career development and growth plans.

Employees Want More

The rising interest in the career development partnership has been stimulated by heightened (or at least more vociferously articulated) employee desires such as:

- More career opportunities
- More participation in decision making
- More meaningful work that contributes to community and society
- More job challenges and satisfaction
- More attention to the person or job match
- More on-the-job learning
- More flexible work schedules in support of work-life balance
- More openness and trust
- More interest in enhancing general employability

The individual can achieve none of these in a vacuum. Employees who are dissatisfied with any of the above areas no longer are willing to be mollified by the traditional motivators of money or status. Some who leave find that the grass is not greener. These same individuals return to the doorstep of the original employer hoping to fix a situation that may not have been all that broken in the first place. The time and effort that goes into bringing these revelations to the forefront sooner could prevent a loss for both the individual and the organization.

A proactive and accountable career development process, when partnered with succession planning, can meet these challenges swiftly and head-on. To work, it requires leadership buy-in, systems and tools that support the model, managers equipped to career coach, and employees willing to take ownership or their careers as well as their own job satisfaction. Ultimately, a development-minded strategy is needed that:

- Holds employees accountable for personal development.
- Wins confidence of customers, community, and suppliers.
- Gains commitment of the internal and remote workforces.
- Propels teams forward with internal worker support and buy-in.
- Uses power of cross-generational teams gto work together as partners in unprecedented ways.
- Optimizes diverse skills, talents, and age differentials.
- Gathers new information and remains open to new options, ideas, and strategies.

The Tie That Binds: Career Development Links to Succession Planning

Career development is ideally a collaborative partnership between the individual employee, the manager or leader, and the organization. At its best it can promote job satisfaction, engagement, productivity, and discretionary effort. While individual employees have the primary responsibility for their own career, the leader must be a supportive coach, and the organization must provide the necessary resources, systems, and information.

Career development was often reserved for the high-potential employee on the fast track. Succession plans have been the mainstay for organizations for many years as the way to develop the leadership pipeline and to ensure a healthy talent management program. We believe a development message is critical for a wider array of workers. Career growth plans (CGP) are needed to enhance the traditional succession plan. Change in today's work structure calls for self-advocacy on the part of all employees. The CGP could become part of the hiring process, describe a variety of paths to development, emphasize the need to focus on mastery of the current job, build relevant skill sets, and value contributions from all generational groups. A career growth plan could motivate all employees to learn from their experiences and daily work, while expanding reach and network, both social and professional.

All employees must learn to build their own individualized career plan. Each person creates a master plan with the help of managers and mentors and his or her own peers to promote the learning and personal development areas that needs to be addressed. This plan continues to latter stages of one's career within an organization where experienced employees focus on "what's next," legacy development, mentoring younger workers, sharing expertise, and working on projects aligned to their experience and skills.

Each organization must grapple with how to create a healthy tie between the business strategy and the ever-changing workforce. Along with the strong need for flexible policies and procedures, there is an immediate need for upgrades in skills. During one's tenure, from on-boarding all the way through phased retirement, it is important to balance individual goals with the business needs of an organization.

New language, such as "zigzagging" career moves, lattice instead of ladders, and career climbing walls are needed to replace terms that have lost their meaning. An example of such is the search for a new word to replace retirement, the last phase of the career continuum. It doesn't explain the midlife journey anymore; yet no term has evolved to take its place. Many words have been recommended such as refirement, rewirement, and protirement. That debate still continues after a decade of realizing that a new paradigm has emerged without much clear direction.

Other gray areas and questions emerge. What about those not included in a succession plan? How is career development made viable and important to all? How will the organization respond to members of the younger generation who are asking about their development? How can traditional succession plans integrate harmoniously with emerging career growth plans?

A New Model for Career Development

Career development and career growth plans are a business imperative that can directly impact the success of any organization. Talent today demands more than a job. Employees at all levels demand a satisfying career that meets their professional, personal, and emotional needs.

The hand-holding days are long gone. Multiple jobs are the norm with constant reskilling and networking to stay attuned to business needs. Consider Ben and Janis who are self-motivated and are successfully managing their careers. Ben is married, age 42, with three children, completed a bachelor's degree through the armed forces ROTC program, has held six jobs already, is working full time as a computer technician, and is taking courses in pursuit of a master's degree in organizational management through an accelerated adult learning program online. He has conducted numerous informational interviews and is focusing on a next career move as an IT business partner liaison (drawing on his education, current interests, and previous IT expertise). He is also beginning to think about his next career after he retires from this current line of work. A combination of a career development plan, flextime at work, distance education, and ROTC is making Ben's career dreams possible. Janis, on the other hand at age 32, has already navigated four different careers in education, library science, and early childhood development. She is job sharing a position with a colleague to spend more time with her young child at home and her elderly father who lives with them after his wife died.

Providing work/life balance, strong career fit, appropriate education, and flexible hours can accommodate each unique situation. Both Ben and Janis say their career choices and decisions have been driven by developing a portfolio of transferable skills and competencies along the way, concrete career planning, personal life circumstances, and taking advantage of the flexibility of today's workplace and educational options.

Research suggests that challenging work, flexibility, career development, and the opportunity to learn and grow are some of the top reasons that employees choose to stay, and stay engaged, in an organization. It doesn't happen by accident. Workers' attitudes and expectations have changed.

What Keeps Them?

These factors* influence job satisfaction and commitment:

- Exciting, challenging, and meaningful work
- Supportive manager, great boss
- Being recognized, valued, and respected
- Career growth, learning, and development
- Flexible work environment
- Job security and stability
- Fair pay
- Job location
- Working with great coworkers or clients
- Pride in the organization, mission, or product
- Fun, enjoyable work environment
- Good benefits
- Loyalty to coworkers or boss

*Kaye, Beverly L., and Jordan-Evans, Sharon, Love 'Em or Lose 'Em: Getting Good People to Stay, Berrett-Koehler Publishers, Inc., 2014.

Leaders of organizations must think beyond the traditional models of career and expand their thinking to an overall career development and growth strategy that focuses on three critical groups: the organization, the manager, and the employee. To begin, ask questions—lots of them. Investigate what's happening in your organization to discover the truth about your development culture.

The Organization

Organizations are continually asked to reinvent themselves and are forced to juggle priorities that shift regularly. The result is a leaner organization with fewer resources, fast-paced work, expanded spans of control, and a new normal at work that demands flexibility and the ability to thrive when ambiguity and change are the order of the day. To remain competitive in business and attract top talent, an organization must provide the systems and structure that support the career development needs across all levels. Some key questions include:

- How can leaders and managers who work within the organization guarantee that the business strategy will work, the day-to-day tasks are updated and redesigned, and the workforce still remain engaged?
- How do leaders respond to the constant change in business today?
- What does a career look like in our organization today?
- Do systems and processes support career development and succession planning for the next generation?
- How can results be measured, and does the organization's career development process support those results?
- How can a foundation be built for employees to grow in areas that matter across the life continuum of the organization and the employee?

The Manager

While the company provides the systems and tools for career development, the development-minded manager provides the support and guidance. Most managers are trained in performance management, and some believe that performance management and career development are one in the same. They're not. Managers must understand that building talent for tomorrow requires commitment to career development today and at every level. Development-minded managers create and implement developmental assignments, encourage risk-taking, set stretch goals, and tap unused resources. They provide a professional safety net so that employees can experiment and learn on the job. They continually ask themselves some key questions:

- How do I serve as a career advocate for my employees?
- How often do I talk with my employees about their career goals and what matters most to them?
- Do I provide candid and frequent feedback to my employees about what they need to do to grow in their careers?
- Do I link employees to the resources and information they need in support of their career goals?
- Do I take career growth plans seriously? What amount of time do I devote to planning?
- Do I provide information to employees about the future of the organization and look for opportunities for employees?
- Do I stay current and future-focused in the above concerns for my career as well as the careers of my direct reports?
- What am I reading and discussing with colleagues to ensure the above?

The Employee

No longer can employees wait for career development to happen to them or for them. To be effective, employees must begin to manage their careers by knowing themselves, knowing what's out there, knowing what others think of them, and knowing whom to ask for help. They pave the way by taking charge of their careers, developing on the job, ensuring that their work has heart, and networking throughout the organization to engage with others and energize daily work. There are five critical areas that demand exploration by the individual:

- *Passion:* How would I describe my current values, skills, and interests on the job? How do I use them regularly at work? How do I ensure that I'll continue to learn, grow, and develop on the job?
- *Reputation:* I received a 360-degree report about my performance/work style. What were the main messages concerning my strengths and weaknesses? How will I ensure that I'll continue to get ongoing performance feedback?
- *Change:* What trends are impacting my organization and how can I capitalize on them to benefit my career? How will I hold myself accountable for continually exploring these shifts? Specifically, what am I willing to do?
- *Options:* If I could do any job within the organization, what would I like to do and why? How can I explore multiple growth avenues? Do I view change as an opportunity?
- *Actions:* What do I want to be doing in one or two years, and what's my plan to get there? What actions will I put in place to ensure that I put myself in position to turn these dreams to reality?" With whom can I talk about these issues and build a viable personal plan?

An Important HR Role

Given the environment of constant change and uncertainty, human resource leaders must align with the vision of the organization by serving as strategic partners who can integrate business-driven solutions around a robust career development program. This means that they must take stock of their existing career development processes to integrate new thinking, ignite new strategies and behaviors, and infuse them into the culture of the organization. They must examine key questions about policies, systems, and structures that are designed to support career development in the organization. The list of questions below presents just some of the challenges for human resource professionals to consider and implement as new processes take shape. How are our policies, systems, and structures:

- Aligned with development choices?
- Focused on future directions?
- Driving new positive behaviors?
- Creating partnerships that energize and engage while fulfilling valued services/products?
- Investing in broad talents and determining where those talents can best be utilized internally?
- Growing a new brand of worker who is fulfilled both personally and professionally?
- Building confident, cost-conscious risk takers?
- Ensuring respect and inclusivity across the workplace?
- Providing opportunities for employees at all levels to learn, grow, and develop within the organization?

What Are the Benefits for Each Stakeholder?

. . . for the organization:

- *Skill building:* Increasing the abilities of employees in their current jobs, as well as enhancing their abilities to adapt to future changes.
- *Productivity and morale:* Reducing counterproductive forces, such as high turnover, absenteeism, and grievances.
- *Motivation:* Valuing a climate of growth, challenge, and shared organizational responsibility for personal development.
- *Potential for retaining:* Providing learning and growth opportunities that retain and engage key knowledge workers.
- *Talent matching:* Supplying sufficient information to individuals so that they can match their abilities to the changing need of the organization.

. . . for the leader/manager:

- *Communication:* Increasing communication about current performance and future opportunities.
- *Information:* Providing better information about changing needs and challenges.
- *Goal clarification:* Clarifying organizational and unit goals and how they fit with individual tasks.
- *Identification:* Supporting efforts to identify employees with skills and abilities.
- *Performance feedback:* Setting the stage for easier performance reviews by enhancing individuals' knowledge of their strengths and developmental needs before their managers formally appraise their work.

. . . for the employees:

- *Self-knowledge:* Understanding personal strengths and weaknesses, as well as needs for the future.
- *Sense of purpose:* Focusing on meaning in work.
- *Skill building:* Learning new skills that can aid in accomplishing current tasks and also provide wider options for the future.
- *Job enrichment:* Recognizing that career growth begins in the current job and that challenge and stimulation can increase without necessarily changing current positions.
- *Work/life balance:* Potential to gain a quality of life based on individual needs and wants.

The Opportunity Environment

Opportunities for employees to learn, grow, and develop within any job is key to a successful working experience. For many years, opportunity was defined as a promotion. Now opportunities can manifest themselves in many different ways. Everyone can begin by considering enrichment in the current job. These opportunities can be somewhat elusive to the untrained eye.

Today, we operate in a new opportunity environment as organizations position themselves to embrace the rapid pace of change. Career development is not for the chosen few, but for all. With that said, organizations may struggle to understand where all this development will happen. Understanding that each organization is an "opportunity marketplace" is a critical mind set necessary to meet the learning and development needs of employees.

The organizational culture must nurture all talent and educate managers in order to understand the needs inherent in the professional lives of their direct reports. By looking wider and deeper for talent within internal ranks, organizations can develop a new understanding and sensitivity to backfilling jobs and promoting career ownership. How might an organization embrace this concept of an "opportunity marketplace?" Consider the following examples:

- With funds spent on developing high-potential talent, redirect a portion of those monies to challenge and mobilize talent in the middle. Initiate internal competition and reward/recognition as part of the stakes.
- Communicate selected issues within the organization typically discussed "at higher ranks." Encourage internal talent to turn those issues into opportunities and to think strategically and innovatively.
- Coach managers to work with their talent and submit competitive internal grants for innovative thinking aligned to an organization's strategy, vision, mission, and purpose.
- Unleash "innovation teams" across generational lines to brainstorm real company issues and provide high-stakes rewards for innovative, viable, articulate ideas.

Generating Buy-in

Human resource professionals readily understand and accept the importance of a development culture to drive talent to greater performance, higher levels of engagement, and job satisfaction. In a time when senior leadership and managers are focused on the bottom line or doing more with less, placing a priority on the career development of their people is often put on the back burner. Creating a strong business case, developing a marketing and communications strategy, and branding the career development effort early on will increase the probability of leadership buy-in and sustained support:

- *Find a champion.* Who in the ranks of senior leadership places a high priority on career development and actively models it in their organization? Creating a strong culture of development will require the resources and funding that only top senior leaders can deliver.
- *Develop a business case.* What is your "burning platform?" Link to employee or culture surveys, take a look at turnover, tie talent to organization vision, link to business metrics, and identify the cost of doing nothing or maintaining the status quo. Bottom line—develop a case that demonstrates the return on investment for the leaders signing the check.
- *Know your key stakeholders and influencers.* Talk with stakeholder and influencers often and keep them updated on the progress of your career development strategy. Ask their advice, seek their support, tailor your communications to their priorities, and encourage them to share the how and why with their teams. On the other side, know who in the organization will seek to derail your efforts. Get them onboard and get them onboard early.
- *Invite employees to tell the story.* Look inside the organization for employees who embody the culture of development in your organization. Demonstrate through videos, posters, e-mail, the intranet, and reward "real" employees who have self-powered their career for success.
- *Keep it simple.* Busy managers and employees need career growth plans that can be integrated into existing systems and processes with minimal impact on time—the most valuable resource. Provide training to help master the how and sustain the learning though coaching, career action teams, career development resources, messaging, and communications. Keep the momentum going and commit to a long-term plan.

The New Normal

There's a new normal that is demanded of career development programs and practices. It is required alongside reorganizations, downsizing, budget constraints, and flattening levels of leadership. The new normal suggests that development must occur right here, right now, and right where you are.

It's time to declutter past thinking about career development. In business environments where employees and leaders are operating faster and leaner, career development must be flexible and self-powered by the employees no matter where they are or what they're doing. The new attitude about career development places responsibility squarely on the employee. It may even mean that succession plans for a few are replaced with career growth plans that build on the strength of all employees. It promotes the belief that all employees must learn and grow, not just those on the high-potential list. Opportunities are readily present to do so if, and only if, the organization can truly support an "up is no longer the only way" philosophy.

World-class businesses that embrace this new attitude are building wider and deeper bench strength, enhancing employer brand, improving workforce flexibility and resilience, developing employee self-advocacy and career accountability, engaging and retaining key talent, and increasing employee productivity.

Chapter 17

How Workforce Trends Affect Outplacement Programs

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How Workforce Trends Affect Outplacement

To understand the new reality of outplacement, you start by identifying and understanding the impact of workforce trends on your own organization. The workforce continues to change and evolve which forces those charged with managing it to adapt and transform often within what can only be described as "organized chaos." Of course, chaos is the road to evolutionary and revolutionary progress and improvement.

In the coming years, human resources professionals will have ample opportunity to improve HR operations, either by choice or by the significant force exuded by the very nature of today's workplace. John Boudreau writes in his.[1] *Harvard Business Review* article, "Work in the Future Will Fall into These 4 Categories," the five forces steering change are:

- Social and organizational reconfiguration—transparency in a project based collective within a horizontal hierarchy.
- All-inclusive global talent market—including a multigenerational workforce due to longevity.
- Differentiated work design policies, practices, and benefits—people choose organizations based on the opinions of peers and opinion leaders in an unconfined, connected social world.
- Exponential technology change—engaging automation.
- Human-automation collaboration—the obliteration of human work, yet an opportunity to optimize a created interface versus resisting.

These significant forces that will bring upheaval to the workplace emanate from three key employee expectations which affect the manner in which HR leaders serve their internal constituents, particularly in relation toward outplacement: flexibility, mobile access, and immediacy.

- *Flexibility:* According to a recent CNN money survey of almost 10,000 employees, a flexible work schedule, along with the ability to telecommute, ranked only second to competitive pay in terms of what employees want in a job. This flexibility is no longer an afterthought or option, but rather an expectation directly impacting employee engagement. Therefore, individuals going through the process of outplacement desire flexibility and are not interested in reporting to an office each day to access career coaching and related career transition services. Rather, they are interested in maximum flexibility while blending their job search effort into their professional needs and daily lifestyle.
- *Mobile access:* Specifically, in conducting a job search, tablets and mobile phones are primary tools leveraged, particularly with millennial and gen Zers (also known as postmillennials, the i generation, plurals. or the homeland generation). Not only is accessibility key, but immediacy is also a critical driver. What this means is that whatever the outplacement provider HR selects, it must have the ability to deliver via mobile devices.

- *Immediacy:* Expected response time has been reduced to just a few moments for all generations in the

- *Immediacy:* Expected response time has been reduced to just a few moments for all generations in the workplace. However, the tools to secure information are varied. The portable mobile device in the form of an iPhone or Android smartphone is no longer the exception. During the career transition process, outplacement program participants rely on access to their coach and online resources to optimize their transition to their desired outcome and do so in a manner that is effective, efficient, and uncomplicated.

The Element of Change Is Growing Exponentially

The trends cited above will churn the workforce at an accelerating rate. Collectively they will cause the separation and displacement of large numbers of employees. It will ensure continued need for outplacement services. Outplacement will continue to be a vital part of the HR leader's options to manage change during downsizing activity. Below is a list of triggers that may cause a need for outplacement.

- Organizational restructuring.
- Need to reduce operational costs.
- Mergers or acquisitions.
- Shifting of direction with solution or product offerings.
- A different core skill set is required within business offerings.
- Organizational expansion requiring transition of employees to newly created or restructured divisions.
- Organization is experiencing a major fluctuation in business activity.
- Facing uncertainty within the economic climate in the industry, including significant changes in growth projections.
- Change in strategic direction.
- The need to have targeted layoffs based on the changing economy and related operational matters that may be affecting the parent company.
- Reduce the negative impact of layoffs on employees designated for downsizing.
- Need to support staff in a new position or with a career change.
- The desire to "protect your brand" from negative perception.

Outplacement will follow a variety of approaches to achieving workforce reductions. In fact it is important to note that outplacement remains the single most effective way to handle unpredictable and never-ending change that has resulted in downsizing. Figure 17.1 offers several approaches to achieving workforce reduction.

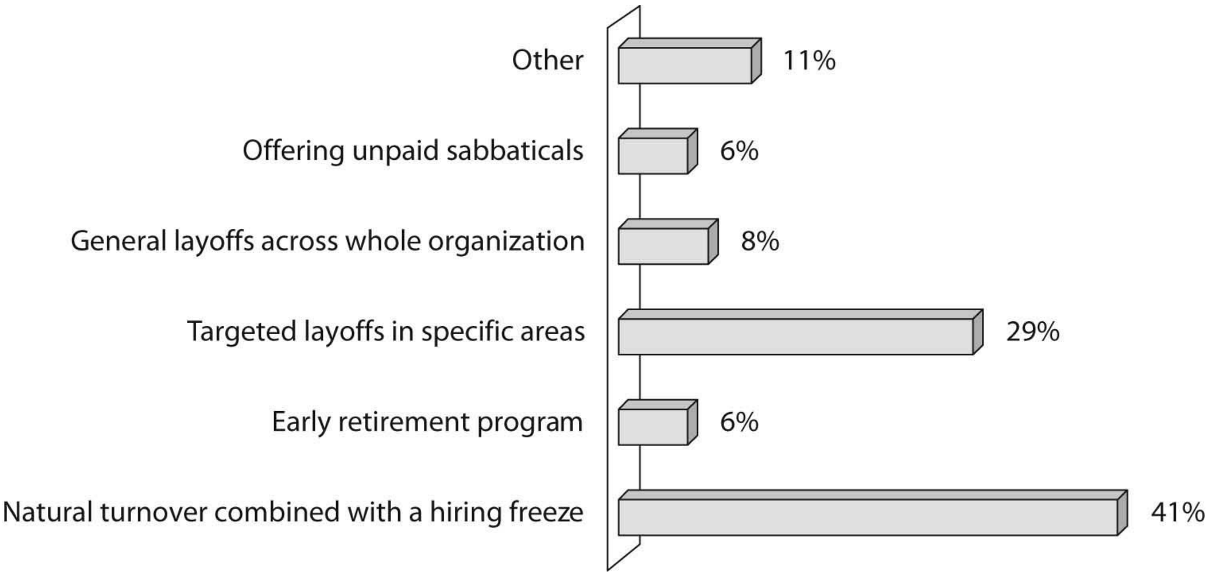

Figure 17.1 Approaches to Achieving Reductions

Outplacement Investments Provide a Solid Return

The return on investment for any business initiative will determine its success. There are many ways to look at success, and human resources are one of them. Some ways to look at how outplacement contributes to the organization's success follow:

- *Recognition for being socially responsible:* Executives, supervisors or managers can demonstrate to their staff that they are true leaders by helping former staff members find gainful employment. This instills important lessons in the office and will build loyalty both inside and outside the office, especially in a world where people and customers liberally publicize and absorb social media.
- *Enhancing the organization's reputation among remaining employees as an employer who cares, while enhancing the feeling of fairness by covering all levels of employees:* When employees perceive that their employer is taking care of them, their families, and their coworkers, they are less inclined to feel resentment or stress in their jobs during difficult times that often involve an increased workload.
- *Enhances employee morale and the organization's image without incurring additional overhead or HR head count:* Typically, post-layoff productivity and profitability are higher when compared to companies that didn't use outplacement. Public companies using outplacement services were more likely to find that their stock price increased or stayed the same in the six months following a downsizing.
- *Adds a low-cost/high-value service to their employee benefit offerings and minimizes turnover among retained employees:* Turnover multiplies in the employee population that survives a poorly managed workforce reduction. Job insecurity, sagging morale, heightened stress, and declining company loyalty contribute to this phenomenon. Employees identify with their peers and what happens to them. This concern lingers long after released employees leave. Effective incentives must reflect where people are in life and what matters to them. And of course, lower turnover also translates into lower hiring and onboarding costs, and less disruption of performance and production.

However, as was emphasized earlier, the financial expenditures during times of change must be vetted with the highest level of intensity. Those "hard" ROI elements that are key to consider enhancing the successful outcome of a reduction in force effort include:

- *Avoidance and mitigation of discrimination or other retaliatory claims by displaced employees:* Wrongful termination suits can easily cost employers \$50,000-plus in fees and settlement payments per incident. Litigation costs alone can exceed \$100,000. One study showed a 42 percent reduction in employee lawsuits when outplacement is utilized.
- *Reduction of unemployment compensation costs of the affected associates while reducing the average term of unemployment by less than one-half day can potentially yield a scenario where outplacement costs would pay for itself:* Companies can pay severance and health benefits for up to 18 months for released employees. The sooner impacted employees find work, the sooner the previous employer's obligation ends.
- *Customer retention is often enhanced because of perceived fairness; this ROI can be significant:* Outplacement can free management to review anticipated future talent requirements and make decisions in a timelier manner. When an organization is oriented toward customer service, the ability to continually engage customers is imperative.

Social Media Become Part of the Outplacement Context

As HR continue to change the manner in which they guide and direct employee career growth, employees have gained a better understanding of tools available both internally and within the public domain to address various aspects of self-directed career management and career transitions. Sites such as LinkedIn, The Muse, Glassdoor, and Landit, provide practical advice on everything from developing effective interview skills to creating an effective résumé to techniques associated with enhancing one's core professional skills.

Given the aforementioned drivers associated with the realities of the evolving workplace, it should come as no surprise that employees are increasingly preparing themselves for job changes. A recent Gallup report,[2] "How Millennials Want to Work and Live," cited the following:

- Six in ten are open to different job opportunities.
- Twenty-one percent have changed jobs within the past year.
- Only 50 percent plan to be with the same company a year from now.

With such ready access to online resources, HR professionals may know that employees will need more support than their own knowledge of the Internet. The ultimate benefits of outplacement come less from technology-driven resources and more from individualized, tailored, one-on-one coaching. Such coaching allows for displaced employees to take proven concepts and practices associated with the job search process and apply them to their unique set of circumstances, leveraging the guidance of a professional coach through all channels.

What is an organization to do when there is a need to outplace an individual employee or groups of employees in this new reality? Simply by understanding that today's employees, regardless of generation, require flexibility, easy access, and immediacy when receiving services leads to the benefits of outplacement. Moreover, considering that the velocity of change is ever increasing and exponential, it is crucial to be prepared for the inevitable. And finally, it is important to be financially prudent, which providing outplacement services can certainly enhance.

References

1. John Boudreau March 17, 2016 *Harvard Business Review* article, "Work in the Future Will Fall into These 4 Categories."
2. Gallup Report May 11, 2016, "How Millennials Want to Work and Live."

Chapter 18

How Line Managers Can Foster Organization Performance Through Talent Enhancement

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WE HAVE FOUND THAT WORKING WITH ORGANIZATIONS OF DIFFERENT SIZES AND in different industry sectors that "best practices" in the world of talent management processes are often not so much about sophisticated and unique strategies and program designs, but about effective alignment and execution. Sports teams rarely win based on new plays. They win with great players, coaches, and the ability to execute as a team.

Line managers have a significant impact on the effectiveness of talent within their organization. In fact, Korn Ferry Hay Group research has shown up to 30 percent of variance in business results can be explained by differences in work climate and talent management processes created by managers of people. They set the tone for a particular work unit, group, or department, and employees in positive environments and are more likely to engage in discretionary effort in support of their individual work teams. Managers who are attuned to this get the performance gains others do not come close to achieving.

This chapter is a guide designed to help you better understand the role of line managers in the talent management process and what they can do to better manage their people. This chapter focuses on the role of the line manager in the following areas:

- Assessing and selecting talent
- Performance planning
- Coaching and developing talent
- Rewarding and recognizing talent

There are no "silver bullet" talent management programs. There is no one best approach to talent management for all organizations and for all employees. Take General Electric as an example. One of the world's oldest and most successful global organizations, GE is transforming itself into a digital industrial company and needs a whole new generation of leaders with different capabilities and mindsets. According to Laurie Bevier, GE's senior human resources leader, "Our leaders are struggling to lead the changes we need for us to become a different kind of company—they will have to get comfortable taking bigger risks, experiment, fail, and learn from it. That is counter to how they traditionally see themselves." Relying on tried-and-true methods of leadership development was simply not going to work. Laurie was asked to lead an entirely new approach—corporate leadership staff—that every year takes GE's highest potentials from across all of GE's businesses and puts them on a three- to four-year journey combining the best of GE's current development programs and planned job rotations to prepare them for mission critical executive roles upon graduation. This highly innovative initiative has helped to ensure that GE will have the leadership to meet its future business needs.

For talent management programs to be effective, managers need to be clear in understanding, identifying, and leveraging what drives value in the organization and then relentlessly and consistently manage the talent in their organization to achieve desired outcomes.

The Changing Role of Line Managers in Managing Talent

Gone are the days when managers could delegate talent management processes to the human resources function. Managers today are expected to be intimately involved in all aspects of people management, including hiring, onboarding, ongoing coaching and development of staff, and rewarding and recognizing employees. For example, line managers are developing their skills in the interviewing and hiring process, learning techniques like behavioral event interviewing that has traditionally been the domain of HR or external consultants. Mobile applications, a way of life for most of us, have made their way into the hands of HR departments and line managers across all industries to provide support to an increasingly diverse and global workforce. Apps now manage payroll and recruitment processes to track employees' time, benchmark pay, manage performance, and even coach and develop leaders. Using their smartphones, managers can get instant access to pay and benefits databases and receive instant feedback on the climate they are creating in their team. Through tools like Korn Ferry Hay Group's leadership styles and climate app, organizations can now measure the effectiveness of their leadership programs in ways that were previously impossible. For example, most organizations measure their leadership development initiatives by gathering feedback from participants. How does an organization measure whether employees have actually changed their behavior? These types of apps enable an organization to measure the development activities the employees are actually doing and the resulting behavior changes along with the commensurate impact on business results.

Organizations have recognized that line managers have the most direct impact on the largest segment of people in an organization. The stronger the pool of talent, the more engaged front-line staff will feel and the more competitive and successful the organization will be.

Line managers need to understand and use talent management tools and processes to close the gap between the talent they will need in the future and what they currently have today.

Our most recent best companies for leadership survey of 2,100 global organizations revealed that the best in class companies will need leaders with a much stronger customer focus, global expertise, a capacity to manage huge complexity while driving innovation, and collaboration. A tall order, demanding that future leaders be truly ambidextrous—managing day-to-day performance while creating more agility, creativity, and risk-taking. Indeed, capacities such as the ability to lead diverse and inclusive teams, think strategically, balance social responsibility and purpose while meeting financial expectations and driving cultural change are the qualities organizations are looking to attract and develop in line managers over the next several decades.

Answering the following questions and leveraging the best practices implied can help line managers prioritize those talent management actions that have the greatest impact on the performance of their team and ensure a sustainable flow of qualified talent to meet future business needs.

1. *Defining the future:* What kind of talent will you need to execute your strategy? How is your organization changing today and how will it change in the future? Will certain roles become more important? What skills and leadership will your team need in the next three to five years that you don't have now? The digital revolution among other global changes is forcing organizations to define leadership in fundamentally new ways and developing leadership skills much earlier in people's careers.
2. *Attracting talent:* What is your employer value proposition? How successful are your current approaches to making your organization or team an attractive place to work? Should you look for talent in places different from where you normally look? Automated applicant tracking systems, or ATS as they are known, are transforming large-scale recruitment. They make the process faster and more seamless for candidates and can manage the entire recruitment process from application and assessments to job offer and rejection.
3. *Selecting:* Do you differentiate between high-performance—those who excel in their current role—and high-potential people who may be successful in future roles? Are competencies used in selecting staff and if so, are they aligned with your future business needs? Increasingly organizations are not just concerned with hiring people with the right skills and competencies; they also want people who bring the right mindset—the core values and beliefs. Does your organization have a clear purpose and values —what it believes in and the positive difference it makes for shareholders, staff members, and the world at large beyond the balance sheet? Organizations want to select people who believe in the same things they do.
4. *Developing:* Are staff members assessed for their capabilities, and do they receive ongoing coaching and feedback? Are there opportunities for staff members to develop their technical skills as well as

their interpersonal and leadership capabilities? Are "stretching" job assignments and projects made available to high potentials? Are leaders expected to participate as teachers in development programs?

5. *Engaging:* Are your current reward practices aligned with the current values, individual needs, generational differences, and demographics of your employees? Do you provide a range of both monetary and nonmonetary rewards to high performers? Do you have the flexibility to adapt your reward practices to the needs of individuals and teams?
6. *Deploying:* Do line managers collaborate in discussing talent and movement of high potentials for ongoing development? Are candidates identified as potential successors for key positions? Do you have a robust succession plan? Are development plans in place for high potentials to ready them for future roles? Are lateral movements valued as highly as upward promotions?

Line Managers' Talent Management Issues

Each organization has a unique combination of business strategy, culture, and talent, so its strategy for talent management should also be unique. There are, however, some best practices that can benefit all organizations —the most important being the alignment and clarity needed for people in the organization to deliver on the organization's strategy. Line management's ability to motivate and engage an employee is central to all effective talent management practices including assessment, providing feedback, coaching, developing, and rewarding staff.

Assessing and Selecting Talent

Once you have defined the "demand" part of the talent management equation—the critical roles, competencies, and skills that will be needed to support the organization's future strategy—it's time to determine the "supply side": How do current capabilities match up to those demands? Then, through the right selection, coaching, development, and rewarding of staff, what is the best approach to closing the gaps? Assessment is the foundation of any effective talent management process. A robust assessment process will include several objective and valid tools that will provide line managers and HR with the data needed to make effective hiring, deployment, and development decisions.

Our research shows that there are four qualities that are highly predictive of performance, as well as other key talent outcomes such as engagement, retention, and overall productivity:

- *Competencies:* The skills and behaviors for success in a role that can observed—they reveal what a person is capable of now.
- *Experiences:* The assignments and roles that individuals have had in the past that will prepare them for future challenges.
- *Traits:* The attitudes, preferences, and personality traits that predispose an individual to behave in particular ways.
- *Drivers:* The core motives that energize and engage us over the longer term, influencing our careers and broader life choices.

The process begins by defining what success looks like for the business—what is our purpose and where are we headed, what is the strategy for growth and given that, what are challenges people will face in their roles? Then we nust ask what are the most critical competencies and skills needed for people to be effective in their roles? What kinds of experiences and backgrounds are needed? What traits and styles will work best? What types of drivers would motivate someone to succeed?

The most important criteria for assessing and selecting talent is to ensure that each approach, whether a self-scoring survey or 360-degree feedback tool, assesses the critical competencies and capabilities that define superior performance in the role being selected. Using the right assessment tools will provide more accurate data to help managers make informed decisions on who will be a best fit for future roles and what development will make the most difference to their long-term growth and success.

Typically, assessment tools fall into several broad categories:

- *Cognitive ability measures:* These assessments measure critical thinking, an essential capability required for managerial and executive roles where problems are often ambiguous and require the ability to quickly analyze data and draw inferences with limited information.
- *Personality measures:* These assess key personality traits that indicate longer-term patterns in behavior and personal preferences. Combined with other sources of data, they can provide an important insight into an individual's overall fit within a role and the challenges he or she may face over the long term.

- *Competency-based assessments:* Competency-based assessments can come in several varieties. These include self-assessment, multirater, or 360-behavioral interviews by a trained assessor, each providing an individual with feedback on his or her performance against the behaviors that define superior performance for the role.

Accurate, objective assessment data linked to the requirements of roles are an invaluable tool for assisting line managers in identifying development needs and designing training and other learning opportunities.

A case in point is the Royal Mail Group, one of the United Kingdom's largest organizations with over 150,000 employees delivering mail throughout the country. In 2006, the organization underwent a massive transformation that included new work practices and job specifications. With over 170,000 applications per year, streamlining and automating recruitment and development practices were a priority. Working in close partnership with the Royal Mail Group's resourcing team, Korn Ferry Hay Group refined the competencies for operational roles, introduced Talent Q Aspects, an automated screening questionnaire including an adaptive, online ability test. Interview guides were also developed to assist hiring managers to verify candidate's experiences and backgrounds and probe for competency-based and job-specific information. The process has since been rolled out across the organization and is an integral part of the hiring and onboarding of the approximately 10,000 applicants that are hired annually.

Performance Planning

Performance planning establishes the expectations between the manager and the employee. It's during this phase that the "what" and the "how" of the job are discussed and agreed upon. It's critical that the manager ensures that there is both clarity and commitment to the performance goals that are established. This may be done either an initial meeting in an annual cycle, or it may be discussed throughout the year if goals, strategies, or conditions change. It is key that this performance planning process be a dialogue between manager and employee.

One trap that many line managers fall into during the performance planning phase is the failure to agree on and communicate the linkage between the individual employee's accountabilities and the team's and organization's goals. A recent Hay Group study of performance management design and administration practices indicated that while 72 percent of organizations have clear strategic objectives, only 30 percent believe that there is a clear linkage between the strategic objectives and individual performance criteria. Helping employees understand their contribution toward the organization's larger goals helps to provide them with a sense of belonging to something greater than their individual selves.

Coaching and Career Development

Best-in-class organizations recognize coaching and feedback as critical talent management skills. A coach can be a manager or peer who works with someone—either an individual or in some cases a team—to foster long-term development and growth in others. Coaching usually involves formal feedback from assessments (such as those described above) and direct observations of an individual's behavior.

As Dick Brown, EDS's former chairman and CEO states, "Coaching is not a once or twice a year activity reserved for the annual performance review. A leader should be constructing his or her performance appraisal all year long." You have numerous opportunities to share your observations and give honest performance feedback. If, at the end of the year someone is truly surprised by what you have to say, this a failure of leadership.

Coaching involves developing capability in a range of skill areas. These can include the development of technical, managerial, and interpersonal skills. Effective coaching will touch upon all these areas. To be most effective, coaching begins with an understanding of the key requirements of the job role and then determining where the primary skill gaps lie. Coaching looks different depending on the level of manager you are coaching:

- *Coaching for technical skills:* Coaching for technical skills involves the development of specific knowledge and skills for a particular area of specialty, ensuring that direct reports have the right skills so that they can properly perform the technical tasks of their job. Coaching activities can include giving corrective feedback or detailed task instructions, arranging for job specific training, or showing others "how it's done."
- *Coaching for managerial skills:* Managers of other managers need to ensure that they are developing leadership, managerial, and administrative skills in their direct reports. First-level managers require coaching in core areas of management including planning, organizing, executing, coordinating, and evaluating as well as developing their leadership skills and sharpening their insights on the impact of their behavior on the motivation and engagement of their teams. Multirater assessments that provide

feedback on a manager's leadership skills from their teams as well as deeper insights on their personal motivations and fit with their job role are powerful tools a coach can use to help grow management and leadership skills.
- *Coaching for interpersonal skills:* These skills sets are often referred to as emotional or social competencies. It includes four key areas—emotional self-awareness, self-control, social awareness (including empathy), and managing relationships with others. Developing interpersonal skills begins with building self-awareness through multirater feedback and helping others perceive differences between their self-perception ("I think I'm an empathetic listener") versus the perception of others ("She never listens and spends more time telling me what to do").

Coaching Competencies for Line Managers

Coaching is an ongoing process of dialogue and feedback throughout the performance management cycle. Effective coaches do not necessarily need to be deep experts in their technical area, but they do need to possess a wide range of interpersonal skills, including the following:

- *Creating trusting relationships:* Establishing open, mutually respectful relationships that empower others to act.
- *Emotional maturity:* Knowing one's own strengths and weaknesses and managing emotions; making balanced, effective judgements of others.
- *Integrity:* Acting in ways that are consistent with one's values and beliefs and acting on them in the face of difficult or challenging situations.
- *Empowering others:* Acknowledging strengths in others and inspiring them to take actions to improve.
- *Empathy:* Accurately hearing and understanding others' thoughts and feelings and probing for deeper understanding.
- *Accurate feedback:* Providing constructive and/or difficult feedback in a way that others can understand, see common patterns and the implications, and make appropriate recommendations.

Contrary to popular notions that managers should focus on strengths, a growing body of research suggests that this may not be the best strategy for developing future leaders. Strength in one role, for example, may turn out to be a weakness in the next. In fact, research in how the brain learns and grows throughout adulthood indicates that deliberate, focused, and sustained practice in areas where one is weaker may be the most effective way of accelerating leadership capabilities.

In a pivotal scene in the movie *Invictus*, the story of the South African rugby team, Matt Damon's character says to his players, "We are more than just a rugby team," as they prepare to take their practice sessions out into the community to involve the entire country in their quest for victory. All good coaches help others see themselves in a larger context, engaging them to have an impact beyond their limited roles.

A newly promoted manager may struggle with leaving behind her old self-image as an individual contributor, continuing to do the tasks that give her a sense of self-confidence and self-esteem but that get in the way of her ability to delegate and build her network. Helping leaders establish an expanded self-image for their role can be one of the most important contributions a line manager can provide. It is the equivalent of building a strong core upon which other leadership competencies are be built and sustained.

Career Development

Coaching and development form part of an organization's broader strategy to provide a more consistent approach to career development to ensure that it will have the talent it needs for its most critical roles. The key questions to answer are—what are the future role demands and how will they evolve, where will the organization source future talent, and what are the development experiences needed to accelerate top talent into those roles? The benefits to a more strategic approach to career development include better employee engagement, better alignment between future business needs, and developing the right people capabilities to drive success, as well as improved succession planning by ensuring that high potentials are provided with the right development opportunities to reach future destination roles. Yet, a recent Hay Group global survey shows that only half of all employees give their companies favorable ratings on career and development issues as explained in Figure 18.1.

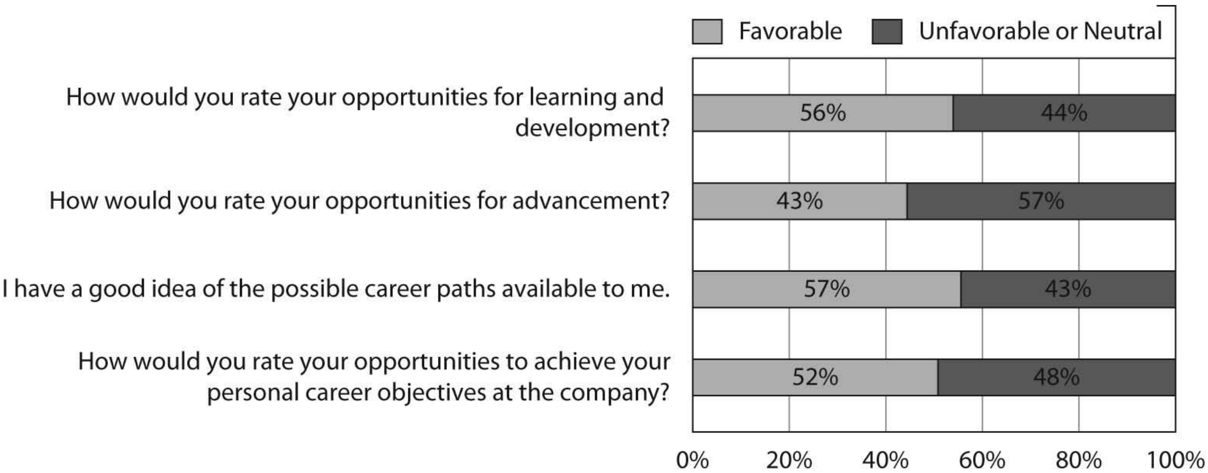

Figure 18.1 Employee Career Development Favorability Ratings

For individuals, career development should answer the following questions:

- Where am I today?
- Where can I go in the future?
- How can I get there?
- What is available to support me?

A career development framework should focus both on developing broad talent across the organization—the "*vital many*"—and on developing top talent for pivotal roles—the "*critical few.*"

For the vital many, the first step typically involves reducing the complexity of career choices by creating job families—organizing individual roles into functional groups that share similar accountabilities. For example, a job family in an IT organization may include software engineers, database administration, product management, and service delivery management. From there, career ladders can then be created, organized by increasing scope and complexity (for example, team leader, manager, senior manager, director). The result is a comprehensive map that shows natural career paths, helping aspiring individuals and their managers to create a development plan of next career moves and development experiences.

At the other end, developing a career path for the vital few starts with a clear understanding of the end in mind—the destination roles that are absolutely essential for delivering on the organization's strategy. These are the roles an organization simply cannot afford to have someone in development mode. Agreeing on what these roles are is the first and often most difficult step. What will these roles need to deliver, where will the organization source its future talent from (called feeder roles), and what are the critical experiences required to develop the capabilities needed are some of the questions that need answering. Creating a career path for the critical few involves working with senior leaders to define future business requirements in order to reach agreement on mission critical roles and then interviewing job experts and incumbents already in mission critical roles to identity the key experiences and what must be learned to prepare them. Organizations like GE have successfully used this approach to support the CLS program described earlier.

Reviewing and Rewarding Performance

While reviewing performance and providing feedback are integral parts of coaching. Managers need to monitor performance continuously and use that information constructively. Monitoring also includes a formal performance period review—typically quarterly, semiannually or annually. In ensuring a "no surprises" philosophy, managers need to ensure that they not only use the performance feedback data they've gathered throughout the year, but also carefully balance all the different data points they've collected when coming to a formal evaluation of performance.

When it comes to the performance review phase of talent management, there are often two common pitfalls for managers: giving away high-performance ratings when they're not deserved; and using the feedback meeting only to look back and not for forward planning purposes. Because they are human and perhaps not adequately trained, managers often have a tendency to avoid the difficult conversations that accompany poor performance assessments. When it comes time to assign a final performance rating for the year, the same patterns apply. Employees need to understand and appreciate the difficulty in achieving high ratings.

Providing employees with the necessary information needed to excel will help to challenge them continually and raise the standard of excellence across the organization.

The second challenge in the reviewing phase lies in using this final review as a starting point for the next cycle. Many managers, finding themselves overwhelmed with the administrative burden of the process, simply stop once they come to a final rating (some even opt out of communicating the rating) and, thereby, miss a key opportunity to look forward and begin the planning phase of the next performance management cycle.

Over the past several years, we've also seen an increase in the number of organizations that are eliminating formal performance ratings that are tied to base salary increases and incentive payouts. These organizations are deemphasizing the link between performance assessment and compensation by placing more focus and energy on substantive performance dialogue and ongoing employee coaching.

A primary reason that organizations have eliminated formal performance ratings is that many believe that ratings and other labels can hurt, rather than help, improve performance. Reasons for this include the view that ratings reduce people and their performance to a single label and that this can create a "fight or flight" response in employees that prevents honest, constructive dialogue. Also performance ratings often focus on past performance while performance coaching focuses on current and future performance. Employees might be hesitant to share development needs and gaps if they fear that these will be held against them in their performance review. In some organizations, there is often a view that more managerial time is spent determining and defending ratings than actually talking to employees about their performance.

If an organization has moved to a ratingless performance environment, there is now greater accountability for managers regarding base salary and incentive allocation decisions because they are no longer reliant on algorithms tied to performance ratings, forced rankings, or forced distributions. These organizations hold managers accountable for making compensation trade-off decisions, just as they are held accountable for making other financial decisions in running their business. Think of a general manager in professional sports determining the value of a contract to offer an athlete based on a multidimensional view of performance, skill set, potential, and leadership contribution to the team versus a single rating score.

It is about a manager considering how the combination of factors such as current business environment, company and team performance, individual employee performance, capabilities, market competitiveness, and current pay all impact the compensation decision process. It is also about the manager collecting data from multiple data points throughout the year so that there isn't a halo effect at the end of the performance cycle. It is critical that an organization have a clearly thought-out philosophy and set of principles around setting and differentiating base salary, variable pay, and nonfinancial rewards.

When most people think of performance rewards, they immediately jump to monetary rewards, year-end bonus/incentive plan payouts, and base salary increases. However, this is a limited perspective considering the breadth of tools available to line managers for recognizing employee contributions. While the rewarding phase usually does include year-end monetary rewards, it also includes recognizing and rewarding employees throughout the year for work well done and delivering performance that exceeds expectations. This view is especially important given that our research indicates that for a majority of organizations, there is often inadequate differentiation in pay between top and average performers. Less than one-third of organizations provide salary increases that might be considered "differentiated" between top and average performers—at least a double difference in the size of the base salary increase size between top and average performers. To increase differentiation, managers should reward their employees as often as their performance demands and should not think it all comes down to a year-end base salary increase or incentive reward.

Financial recognition programs have also become increasingly prevalent and effective in organizations over the past decade. William James, the first person to teach a psychology class in the United States—at Harvard University—was quoted as saying, "The deepest principle in human nature is the craving to be appreciated." With a well-designed employee recognition platform in place—one that is tied to a company's core values and business objectives—the outcomes can be significant. On an intuitive level, it stands to reason that when employees feel appreciated and acknowledged for their contributions, they are more engaged in their work. The more that human resources and senior leaders take an active role in aligning their recognition programs to the business impact and key drivers of the business—for example, innovation, customer impact, operational excellence, collaboration—as opposed to simply tenure, the greater the return on investment of these programs.

Line managers actually have a broad range of nonmonetary reward vehicles at their disposal to reward employee performance as well. This includes future career development opportunities, the opportunity to do meaningful work, new project opportunities, training, public recognition, increased exposure to the senior leadership, and greater empowerment in making key decisions. Recognizing and rewarding employees can have a significant impact on employee motivation. Unfortunately, when the rewards are poorly communicated and misunderstood, they can be equally demotivating. It's critical to link these rewards directly to individual performance and organizational goals. As a line manager, you'll need to ensure that employees perceive that there is a clear differentiation in the perceived "value" of the reward that is directly proportional to performance. Without this perception, high-performing talent will likely feel disengaged—and no one will understand what high performance means because everyone is treated the same.

The Role of Human Resources

In building and sustaining the organization's talent management capabilities, one must not lose sight of the vital role played by the organization's human resources function. While line managers are the lynchpin of the talent management process, HR must take the strategic position and perspective that many individual managers are ill-placed to see. For many organizations this means that the HR function, working with senior leadership, is the steward of the organization's talent management processes. They are there to support and equip line managers with the tools and processes to support their management of talent.

Hay Group research indicates that there is a great opportunity for many organizations in improving their talent management processes, as well as HR's support to managers in their execution of these processes. Many HR functions are inadequately supporting their line managers in this regard. Figure 18.2 summarizes data from the study concerning the perceived effectiveness of line management from the perspective of HR and line management themselves in terms of selected talent management and reward processes.

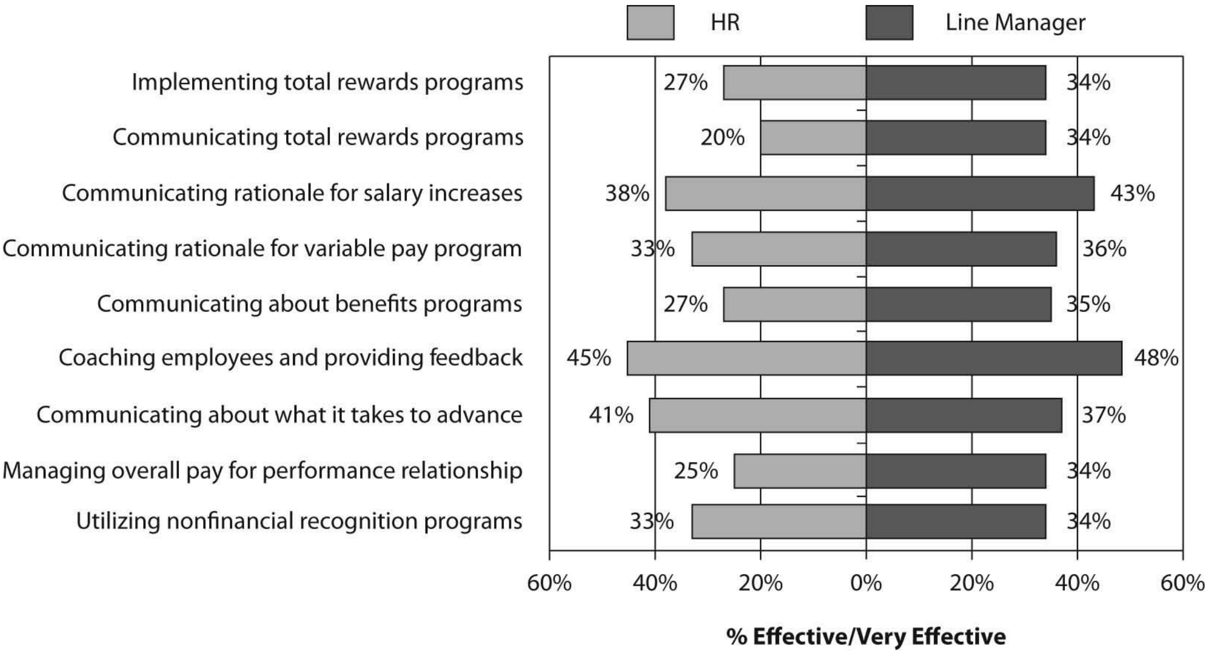

Figure 18.2 Poor Marks in Utilizing Line Managers in Implementing Reward Programs
Source: Line Managers Impact on Reward Effectiveness

It is troubling that the effectiveness ratings are below 50 percent for all categories—indicating that there is substantial work to do to better equip and support line managers in these core talent management processes. In order to be effective, HR needs to be focused on developing and leveraging the right talent management practices across the organization and helping line managers in leveraging these tools.

Summary

Effective talent management is about ensuring an ongoing focus of a two-way dialogue between manager and employee about what is important and how to improve. This idea, while simple, takes a lot of energy from leaders and line managers to execute. We believe that the principles embodied in this chapter, if incorporated into ongoing management practice, will lead to greater success both for manager and employee and, if practiced broadly, a healthier and more effective organization.

Chapter 19

Developing Leadership Potential Through 360-Degree Feedback and Coaching

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Talent management has become a critical concern for organizations as they seek to create and maintain a culture of leadership, innovation, engagement, and performance. An important tool for supporting organizations in meeting these goals is 360-degree feedback. Over the past 25 years, 360 feedback, also known as multisource feedback, has gained increasing popularity and importance for talent management (Silzer and Church, 2009). This method of multisource feedback collects and reports quantitative ratings of a leader's effectiveness provided by coworkers (i.e., raters). The process also includes comparing rater perceptions across multiple leaders and creating sustainable change valued by the organization (Bracken, Rose, and Church, 2016).

Providing an accurate analysis of leadership potential and current effectiveness for leaders and their organizations is a primary purpose of 360 feedback (Fleenor and Brutus, 2001). By collecting importance and effectiveness ratings, 360-degree feedback is useful for determining what is important for success in an organization. By integrating 360 feedback into its talent management system, an organization can successfully assess leadership potential, identify employee strengths and weaknesses, and recommend developmental activities.

Research has shown that the implementation of a 360-feedback process can improve the financial performance of the organization. For example, Kim, Atwater, Patel and Smither (2016) found that 360-degree feedback has a positive effect on organizational financial performance through employee competence and knowledge sharing. They also report that when 360 feedback is used for both administrative and developmental purposes, the relationship between 360 feedback and knowledge sharing is stronger, which results in increased organizational financial performance.

The 360-Degree Feedback Process

Most 360-degree feedback processes share similar characteristics:

- Multiple individuals (bosses, peers, direct reports, the leader himself or herself, and others such as customers) provide ratings for the leader. The raters assess the leader's on-the-job effectiveness and other attributes using a numerical rating scale. These ratings are collected anonymously, so the leader does not know who provided the ratings. However, because most employees have only one boss, it is usually not possible to keep boss ratings anonymous.
- A feedback report is provided to leaders that summarize the results of the assessment. With the assistance of feedback coaches, leaders examine their high ratings (strengths) and low ratings

(development needs), as well as differences between their own and others' perceptions of their performance.
- Leaders create a development plan and work with feedback coaches to identify ways they can improve their performance.

Evaluating Potential

Probably the most common use of 360-degree feedback is to assess leader competencies. Some 360-degree surveys are appropriate for assessing the potential of leaders to perform in roles with greater responsibility, while others are more suited for assessing effectiveness in the current job. The Center for Creative Leadership (CCL) has developed a 360-degree assessment called Benchmarks for Managers™ (CCL, 2015) that focuses on what leaders learn from experiences on the job. It is based on research on how successful leaders develop and why they sometimes derail (McCall, Lombardo, and Morrison, 1988).

To assess leadership potential, Benchmarks for Managers has a section, Meeting Job Challenges, which contains competencies measuring (1) the resourcefulness needed to cope with the demands of the job, (2) the drive and attitudes necessary to be successful, and (3) the ability to learn and make decisions quickly. It also has a section, Problems that Can Stall a Career, which contains scales that assess a leader's potential for derailment. The derailment scales include (1) the failure to build relationships and to negotiate well, (2) problems with interpersonal relationships, (3) difficulties changing or adapting, and (4) having too narrow a functional orientation.

Several issues in identifying high-potential leaders through 360-degree assessment should be considered. Assessing leadership potential is not an exact science, and the results could result in a self-fulfilling prophecy. Additionally, individuals who are not selected as high potentials may become disgruntled and disengaged. Furthermore, some organizations may fail to follow up on the 360 assessments with appropriate developmental activities such as feedback coaches, leader training, and/or job assignments.

Leader Competencies

For talent management purposes, best practice organizations have developed clearly articulated, well-implemented, and widely accepted models of effective leadership, known as *competency models*. In some organizations, they may be called success factors or leadership frameworks. Whatever the name, these models articulate the competencies that are critical for a leader's effectiveness in an organization. The organization's competency model is implemented in various talent management processes across the organization including 360-degree feedback, leadership development, the identification of potential, performance appraisal, leader selection, and so forth. This approach reinforces the importance of the organization's model of leadership effectiveness and provides leaders and other employees with multiple opportunities to use and better understand the competency model.

Each component of the talent management system should be built around a common competency model (Byham, 2004). The competencies should be built on examples of behaviors and attributes that are required for successful job performance in an organization. Once a comprehensive competency model has been developed, these competencies can be incorporated into a 360-degree feedback survey. This ensures that the 360-process measures the leadership competencies that are considered important by the organization and that leaders receive accurate feedback on these competencies (Fleenor, Taylor, and Chappelow, 2008).

A successful leader competency model requires much detail. For example, effectiveness at low, moderate, and high levels of a competency is determined, providing a description of what leader effectiveness looks like at different levels in the organization. Typically, three levels are used, corresponding to executive, middle, and supervisory employees. This approach may require the use of multiple 360-degree feedback models that align with each level of leadership.

Organizations use different methods to arrive at a competency model: (1) they adopt an existing competency model from a reputable source that has been used successfully across organizations and that has high face validity within the organization; (2) they create a model "from scratch," involving numerous stakeholder groups within the organization that agree on what the most important leader competencies are in the organization; or (3) they begin with an existing framework (e.g., a set of organizational values or strategic priorities) and derive a set of competencies that are needed to deliver on this set of values or priorities. Whatever process is used, the goal is to arrive at an integrated set of competencies that are relevant, meaningful, and understood across the organization.

We recommend that organizations frame their competencies into three categories: foundational, growth-oriented, and career. These categories represent competencies that are good predictors of long-term potential

(Mone, Acritani, and Eisinger, 2009). Using this framework will help leaders understand that some competencies that are predictors of long-term potential may not necessarily be predictive of immediate promotability (Silzer and Church, 2009). This framework will help talent management staff better understand the nature of potential, how it's assessed, and why some competencies are more stable while others are more developable. It will also help to determine which competencies are necessary for long-term potential decisions and to distinguish the competencies needed for immediate promotion from those needed for the development of potential.

It is usually necessary, however, to provide training for the leaders and the raters before implementing such a process. Leaders must be educated about the competencies and how to use them, and raters should be trained on how to accurately assess these competencies. Implementation of a competency model may involve modifications to the organization's current processes.

Coaching and Development

A survey of 152 coaches in 68 organizations conducted by Nowack (2007) found that, after face-to-face interviewing, 360-degree feedback was the most popular tool used for talent management purposes. When 360 feedback is used for coaching and development, a confidential feedback session is held with a trained coach who is experienced with the assessment being used and, if required, certified in its use. In this one-on-one session with the feedback recipient, the coach provides a brief introduction to the background of the assessment, an interpretive session on the recipient's data, and assistance with developmental planning. Recipients usually appreciate the opportunity to discuss their feedback with a dispassionate third party. One-on-one coaching sessions are particularly important for individuals receiving 360-degree feedback for the first time (Fleenor et al., 2008).

One CCL client, a large global biopharmaceutical company, conducts four separate debrief sessions. The goal for the first session is to help the feedback recipient decipher the data—how to read the report, understand the scoring, and gain preliminary insights about trends and patterns. The second meeting is to help the participant narrow the focus and begin to create a development plan. The third meeting is to review the final development plan with the boss. The fourth meeting occurs six months later as a check-in regarding the individual's progress toward goals.

In general, the feedback coach should be someone outside the recipient's chain of command. When only the recipient and the coach see the feedback report, it reinforces the confidential nature of the data. When delivering 360-degree feedback, the coach helps the recipient draw conclusions about the data. The coach ensures that the recipient fully understands the process and helps him or her to get past the data to the meaning of the feedback.

It is important to give the recipient time to analyze the data before the feedback session takes place. Best practices suggest giving the recipient at least one night to "sleep on" the data. If some of the feedback is negative or surprising, the recipient will need more time to deal with emotional reactions to the data or to the raters. The coach should allow from two to four days between the delivery of the feedback report and the coaching session. When a recipient has a chance to digest the data in advance, he or she will understand it better, have time to deal with immediate emotional reactions, and be more open and positive in the feedback session.

The coaching session should be held in a private area. The coach prepares for the session in advance by thoroughly reading the feedback report and making notes. The coach should encourage the recipient to audio record the session to allow for full engagement rather than note taking. An audio recording will serve as a useful tool later when reviewing progress in relation to development plans.

Facilitating the Coaching Session

A good feedback coach tries to understand not only the data but also the work context for the particular individual. The following questions will help to facilitate the coaching session (Fleenor et al., 2008).

- How will the data be used? The recipient who is seeking a promotion to the next level in the organization has an entirely different framework for feedback than does a person who is happy in her current role.
- What is happening in the present job situation? There may be something occurring within the organization that is having an impact on the feedback (e.g., downsizing).
- Is the recipient surprised by any of the feedback? Disappointed? Pleased? Sometimes these questions alone are enough to get people talking about their reactions to the data.

- What overarching themes emerge from the data? Perhaps the most valuable thing experienced feedback coaches can do is to help recipients make connections in the data that they do not initially see.
- How can the data be summarized? What are key strengths? What are key development areas? Helping the recipient to summarize and focus the data is critical. The session should progress from the general to the specific.
- What changes is the recipient motivated to make right now? In the future? The most critical decision the recipient makes about the data is choosing the areas on which to focus and work.
- While experienced feedback coaches should leverage their expertise with the feedback survey, they should resist any temptation to act as an expert on the individual recipient's data. The recipient should decide what to pay attention to and how to make meaning of the feedback. Effective coaches see themselves as guides to the feedback, asking helpful questions and helping the recipients to make connections in the data they have received.

Steps for Ensuring a Successful Coaching Session

To ensure a successful feedback session, coaches should follow the following steps:

1. Clarify purpose, goals, and expectations of the feedback process.
2. Discuss the research that supports the 360-degree feedback survey being used.
3. Provide a context for receiving feedback, including the following points:
    - Emphasize that only the individual can makes decisions about the data. Feedback is data, and data are neutral. Data cannot make decisions about an individual.
    - Explain that feedback represents a snapshot of the recipient. It does not define him or her as a person. It is important to put this snapshot alongside others to see what overarching patterns emerge.
    - Inform recipients that they must avoid one of two common mistakes when they receive 360-degree feedback: they accept the information too quickly, or they reject it too quickly. Encourage recipients to carefully consider and think over their data.
4. Explain how to read and interpret the feedback report.
5. Allow time for individual reflection on the data and for answering questions.
6. Introduce any guides or other materials that will help the recipient with developmental planning.

Creating Behavior Change with 360 Feedback

To create sustainable, organization-wide behavior change in leaders with 360-degree assessments, Bracken and Rose (2011) recommend the following design factors in the 360 process:

- The survey content must be relevant (i.e., job related) to the organization and its leaders. The best way to ensure relevancy is to use a leader competency model validated for the organization.
- The data must be credible (e.g., have appropriate safeguards for anonymity, confidentiality, and data security).
- The 360-degree process must be implemented organization-wide. That is, all leaders in the organization are required go through the 360-degree assessment process.
- The leader must be held accountable for acting on the feedback by creating and implementing a development plan based on the assessment results.

Bridging the Leadership Gap

Organizations are discovering that their leadership pipelines are filled with individuals who are deficient in the skills and capacities necessary for long-term success. How profound is this "leadership talent gap?" To find out, the Center for Creative Leadership (Taylor, 2010) first surveyed more than 2,000 leaders from the United States, India, and Singapore to explore which factors are most critical for present and future success and to see how today's leaders measure up. In this study, participants were asked to rate the importance of 20 key leadership competencies that are used on CCL's 360-degree assessments. The findings were consistent across country, industry, and the organizational level of the respondents.

Within the list of twenty key leadership competencies eight were found to be particularly critical to future success (in order of importance): (1) leading others, (2) strategic planning, (3) managing change, (4) inspiring commitment, (5) resourcefulness, (6) doing whatever it takes, (7) being a quick learner, and (8) participative management. Respondents reported that not only were their leaders lacking in strength in the eight identified critical competencies but they also fell short of expectations on all 20 of the competencies. Among the biggest competency gaps were managing change, developing employees, planning strategically, and managing one's own career. The leadership gap was found to be greatest in high-priority, high-stakes competencies. The four competencies that were ranked the most important by respondents were found to be among the weakest in their leaders: leading people, strategic planning, inspiring commitment, and managing change.

Conversely, the results indicated that many leaders possess strengths in areas that are relatively less important for future success including strength in building and mending relationships, compassion and sensitivity, cultural adaptability, respecting individual differences, composure, and self-awareness. Four competencies were found to be aligned with the current level of strength matching the level of importance: being a quick learner, resourcefulness, participative management, and doing whatever it takes.

Best practice organizations use research such as the leadership gap study to adapt and refocus their talent management efforts. Steps that organizations can take to bridge the chasm between current leadership talent and future leadership needs include (Taylor, 2010):

- Perform a needs assessment to evaluate the leadership challenges the organization faces and identify the specific competencies that leaders need to meet these challenges now and in the future.
- Implement a 360-degree feedback process to assess these competencies.
- Create a talent strategy to identify, develop, and retain leaders who possess the capabilities the organization needs. Leadership gap data can be used to determine if the organization needs to transform its culture, modify its leadership development processes, or change its talent management practices. This strategy can serve as a catalyst for developing an HR system that links talent management to performance, hiring, compensation, and leadership development.
- Develop and implement talent management strategies to help leaders adapt to changing business scenarios. Enhance the skills of HR professionals in executing these talent management strategies.
- Develop specific goals and tactics for individual leader development to determine how to spend energies and investments. For example, organizations may provide training on strategic skills, define and encourage rotational job assignments, and create a forum leaders can use to exchange ideas and solutions.
- Determine whether the organization has in place the underlying systems and processes needed to excel at identifying and developing talent, retaining top employees, and managing performance. In addition to implementing a 360-degree feedback process, this may include revamping job descriptions, changing recruiting practices, and/or developing a new incentive plan more closely aligned with the organization's strategy.
- Routinely evaluate how talent management efforts are paying off across the organization. What additional resources are needed? What metrics are in place to assess impact?

Using Big Data to Close Leadership Gaps

For several years, high-tech companies such as Facebook and Google have been using big data techniques to help them better understand their customers. Today, organizations are increasingly turning to big data to help them make quicker talent management decisions to adapt better to changing business conditions. For example, CCL has maintained a database of leaders who have participated in the 360-degree process for the past 20 years. This database now contains data for hundreds of thousand leaders, including demographic data, and other measures such as personality. This large database allows CCL to conduct research studies using analytic techniques associated with big data. A recent example is a study on gender differences in derailment ratings collected with 360-degree assessments. This study, which has a sample size of almost 50,000 leaders, was conducted in collaboration with the department of management at the University of Florida (Bono et al., 2016).

Integrating 360-Degree Feedback into a Talent Management System

A leadership development process that includes 360-degree feedback should be fully integrated into a talent management system. Best practices for creating an integrated talent management system should be followed, including (Groves, 2007):

- Developing mentor networks.
- Identifying and developing high-potential employees using 360-degree feedback.
- Developing high-potential employees through on-the-job developmental experiences.

- Establishing a flexible and fluid succession planning process.
- Creating organization-wide forums for revealing high-potential employees to multiple stakeholders.
- Establishing a supportive organizational culture.

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Chapter 20

Developing Your Workforce: Measurement Makes a Difference

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TO MAKE A DIFFERENCE WITH TALENT DEVELOPMENT PROGRAMS, MEASUREMENT IS necessary in order to uncover success and failure. With measurement, changes are made, adjusting the program to make it better in the future, thus maximizing the return on investment (ROI) in talent development. Maximizing ROI makes a strong case for investing in talent development in the future, often attracting more investment.

What we have learned since the first *Talent Management Handbook* was first published, is that the measurement process is not pursued just for the sake of measurement and improvement, but is approached with the end goal of influencing the investment in talent development. Talent development is a critical issue, and every organization must invest properly to ensure that the talent is performing and achieving the desired business results. This approach pushes the measurement process to higher levels of evaluation, including impact and even sometimes ROI for major programs.

Table 20.1 shows the categories for evaluation with five levels of outcomes. Executives prefer levels 4 and 5. A major study sponsored by the Association of Talent Development revealed that 96 percent of Fortune 500 CEOs want to see business impact from learning and talent development, while only 8 percent see these data now. For ROI, 74 percent of these executives wanted to see ROI and only 4 percent see this now.[1] Using this measurement process to capture data and improve programs brings a process-improvement mentality to the evaluation. To achieve this, a new approach is necessary to actually design for results. We don't just measure our ways to success; we design our way to success. That's the big shift—the essence of this chapter.

Level	Measurement Focus	Typical Measures
0: Inputs	• Inputs into programs including indicators representing scope, volumes, times, costs, and efficiencies	• Types of topics, contents • Number of programs • Number of people • Hours of involvement • Costs
1: Reaction and planned action	• Reaction to the programs including their perceived value and planned action	• Relevance • Importance • Usefulness • Appropriateness • Intent to use • Motivational • Recommended to others
2: Learning	• Knowledge gained, learning how to develop concepts and how to use skills and competencies at work	• Skills • Learning • Knowledge • Capacity • Competencies • Confidences • Contacts
3: Application	• Application and use of knowledge, skills, and competencies in the work environment, including progress with implementation	• Behavior change • Extent of use • Task completion • Frequency of use • Actions completed • Success with use • Barriers to use • Enablers to use • Employee engagement
4: Impact	• The impact of the programs and processes expressed as business impact and effectiveness measures	• Productivity • Revenue • Quality • Time • Efficiency • Accidents, incidents • Retention • Customer satisfaction
5: ROI	• Comparison of monetary benefits from the program to program costs	• Benefit cost ratio (BCR) • ROI (%) • Payback period

Table 20.1 Six Categories of Data

The six types of data in the table follow a logical flow or chain of impact that occurs as participants engage in learning programs and move from inputs (level 0); to participant reaction (level 1); learning acquisition (level 2); application of knowledge and skills (level 3); impact on the organization (level 4); and economic contribution, ROI (level 5). These five levels of outcomes provide the compass that point toward success.

To design for results means that all stakeholders involved in the talent development cycle must do their share to make sure that the programs deliver the desired business results. This means that a program starts with the results in the beginning and follows many steps in the process, ensuring that the results materialize. Then those results are used in creative ways to enhance the budget for the process. This is accomplished with an eight-step process for maximizing the value of talent development.

Step One. Start with Why: Aligning Programs with the Business

We've heard, "Start with the end in mind" many times, but the end is not having great programs that participants see as valuable. The end is important business measures in the organization. The business measure is the "why" for the program.

It's helpful to present this concept visually. Earlier, Table 20.1 presented the different levels of outcome data that are possible. The goal is to move have business impact with major programs, showing the business value. To measure value at different levels, a key question comes to mind: What are the objectives? This is shown visually in Figure 20.1, which connects evaluation on the right side of the model to needs assessment on the left side of the model. The objectives are in the middle. The objectives determine what should be measured, and the objectives come from the needs assessment, the left side of the model. The model clearly illustrates that a major program should start at the upper left-hand side of the model and move through several levels of needs assessment, to the design, development, and delivery of the project. Data are collected along the different levels of outcome to generate the success that is needed.

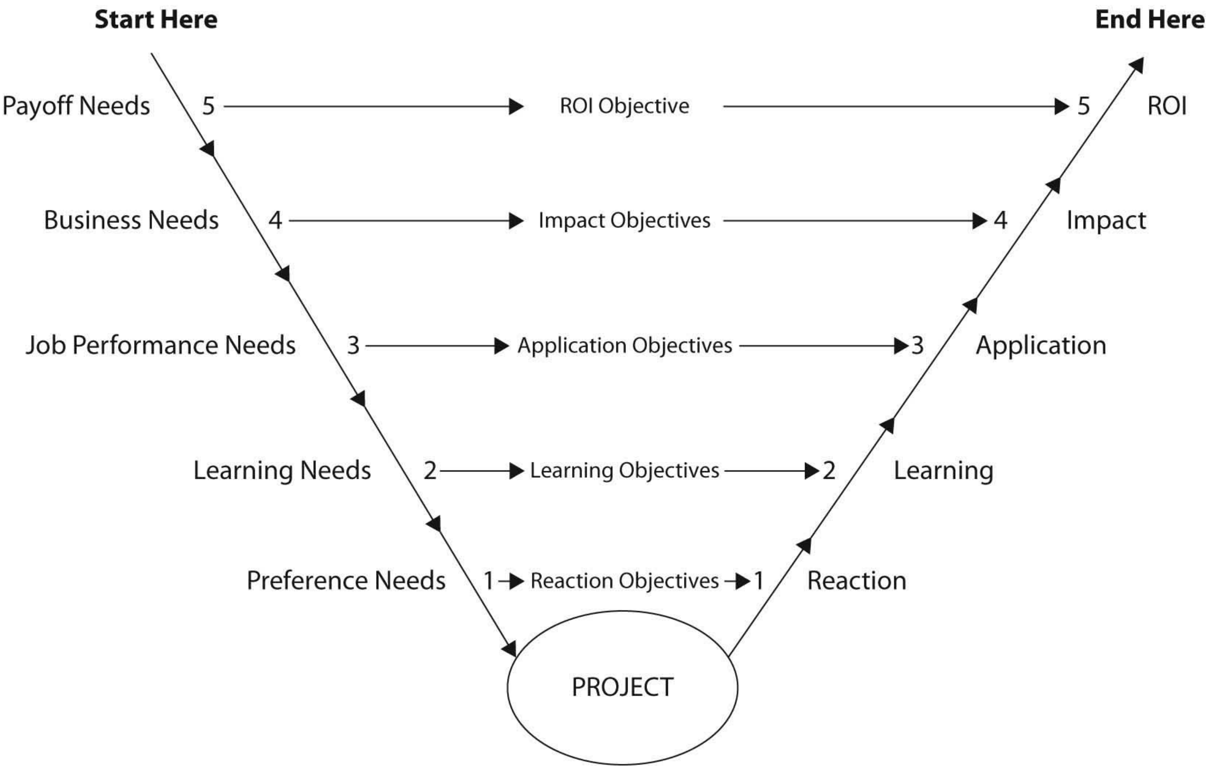

Figure 20.1 The Alignment Model

This is an important framework for envisioning how a new solution connects to the business. But first, the level of needs assessment that should be a part of the discussion is the payoff need for the program. The payoff addresses the question, "Is this a program worth implementing?" This has two parts: Is this a problem worth solving, or an opportunity that's worth pursuing? Sometimes this is obvious as shown in these problem statements:

- New account growth is flat compared to 10 percent for competitors.
- The time to process a claim has increased by 30 percent in two years.
- Excessive turnover of critical talent: 35 percent above benchmark data.
- Inadequate customer service: 3.89 on a 10-point customer satisfaction scale.
- Safety records are among the worst in the industry.

- This year's out-of-compliance fines total $1.2 million, up 82 percent from last year.
- Excessive product returns: 30 percent higher than those in the previous year.
- Excessive absenteeism in call centers: 12.3 percent compared to 5.4 percent industry average.

The request should not be perceived as a problem, but as an opportunity to improve.
With some requests, it is not obvious that there is a payoff need such as with these common requests: with

- Implement a teambuilding project.
- Improve leadership competencies for all managers.
- Develop highly effective employees.
- Train all team leaders on crucial conversations with team members.
- Develop an "open-book" company.
- Create a great place to work.
- Implement a transformation program involving all employees.
- Implement a career advancement program.
- Build employee capability for future growth.
- Create an engaged workforce.

In these situations, additional questions, probing, and analysis are necessary to explore and uncover the business connection and pinpoint the business measures that will improve with this solution.

In short, the payoff needs analysis could be a conversation about the seriousness of the problem or the opportunity. Or it could be some analysis that could go all the way to forecasting ROI in advance. Fortunately, or unfortunately, many executives are asking for the ROI in advance of the major program. This clearly shows if there's a payoff need.

The most important part of the needs assessment usually focuses on the business need. The task is to identify the specific business measure that must change so that the program delivers business value. These could be very specific measures, such as the new account generation needs to improve from three per month per sales representative to six per month in six months; out of compliance of fines should be reduced by 50 percent in one year; or product returns should be reduced by 20 percent in six months. A very precise business need translates quickly into very precise impact objective, which is described later.

Sometimes, the not so obvious requests have business needs, particularly with soft programs such as leadership development and management development. These are usually undertaken to actually drive business results, although it's not so apparent to the talent development team. While leadership development is needed to improve business measures, it may be improving different measures. For a program cutting across different functions, the measure could be different for each participant and often will be. In these cases, the business need has to be defined by the individual attending the program, sometimes with the input of the participant's immediate manager. Essentially, the participant is suggesting, "I have a performance measure, clearly identified as a key performance indicator on my operating reports or scorecard, and that measure can be improved by using the competencies with my team that I will learn in this particular program."

This concept of having the participant bring to the program a clearly defined business measure is not new. This is routine with sales programs and with Six Sigma programs, for example. This approach is needed for soft programs such as management development, leadership development, communications, team building, and engagement. When this step is taken, the business need is identified, and alignment is achieved. In the beginning, the program starts with why, the business measure. For more information, see other resources.[2]

Step Two. Make It Feasible: Selecting the Right Solution

With the business need clearly defined, the next step is to decide on the solution that will improve the business measure. What should participants be doing or stop doing that will have the appropriate effect on the business measure? This sometimes requires analysis, using techniques such as problem-solving, brainstorming, fishbone diagrams, records review, focus groups, nominal group technique, and many others in an attempt to understand what's causing the business problem or what's keeping the business measure from being what it should be.

Sometimes a solution is obvious. There's something that participants are not doing that they need to be doing, and that is the performance need. With the clearly defined performance need, the question becomes, "What do participants need to learn to make that work?" This is the learning needs component shown in Figure 20.1. What do participants have to learn to drive the desired performance and deliver the performance that is needed? These two steps lock in both the performance need and the learning need. Even if the solution is new technology, a reward system, a new process, or job redesign, there is a learning need. If a new reward system needs to be implemented to recognize the team, then the participants must know how to make it work. If it's new technology, participants must learn to use the technology properly.

The next needs assessment level is preference. What are the perceptions of the solution from the participants' perspective? Participants might want the solution to be important, relevant, practical, valuable, timely, and useful. It must be something they will implement and recommend to others.

These first two steps address five levels of needs, achieving business alignment and identifying the solution that will be designed, developed, and implemented. For more detailed information on these steps, see other sources.[3]

Step Three. Expect Success: Designing for Results

A major outcome from the needs assessment is a clear definition of the objectives. The objectives define the success that's needed at each level. At the payoff level, the ROI objective is the minimum acceptable return on investment. At the business impact level, it's the minimum amount of business improvement required to be successful. At the application level, it's the minimum amount of use. At the learning level, it's the minimum amount of knowledge and skill that must be learned. And at the reaction level, it's the minimum level of perceived value.

Figure 20.2 displays the objectives set for executive coaching at a hotel chain. Objectives for all five levels were developed for this program because it was destined to be evaluated at all five levels.

Level 1. Reaction Objectives

After participating in this coaching program, the managers being coached will:

1. Perceive coaching to be relevant to the job
2. Perceive coaching to be important to their performance
3. Perceive coaching to be value added in terms of time and funds invested
4. Rate the coach as effective
5. Recommend this program to other managers and executives

Level 2. Learning Objectives

After completing this coaching program, the managers being coached should improve their skills for each of the following:

1. Uncovering personal strengths and weaknesses
2. Translating feedback into action plans
3. Involving team members in projects and goals
4. Communicating effectively
5. Collaborating with colleagues
6. Improving personal effectiveness
7. Enhancing leadership skills

Level 3. Application Objectives

Six months after completing thiscoaching program, managers being coached should:

1. Complete the action plan for application and impact
2. Adjust the plan accordingly as needed for changes in the environment
3. Show improvements on the following items:
    a. uncovering personal strengths and weaknesses
    b. translating feedback into action plans
    c. involving team members in projects and goals
    d. communicating effectively
    e. collaborating with colleagues
    f. improving personal effectiveness
    g. enhancing leadership skills
4. Identify barriers and enablers to success

Level 4. Impact Objectives

After completing this coachingprogram, managers being coached should improve at least three specific measures in the following areas:

1. Sales growth
2. Productivity/operational efficiency
3. Direct cost reduction
4. Retention of key staff members
5. Customer satisfaction

Level 5. ROI Objective

The ROI value should be at least 25 percent.

Figure 20.2 Objectives of Coaching for Business Impact

Source: Phillips, Patti P. and Jack J. Phillips. *Investing in Human Capital: ROI Case Studies, Analytics in Action*. Birmingham, AL: Business Writers Exchange Press, 2016.

Specific objectives are important to the success of the program, and they define the expectations. These objectives help the designers and developers clearly develop the content that will drive the business measure and the performance that's needed to achieve it. Facilitators are now teaching not only to participants must learn, but what they must do with what they've learned and the impact it will deliver.

Even the managers of the participants clearly see why this program is being implemented. Level three objectives show these managers what participants will be doing. Level four objectives show the impact on their work. Level four objectives are usually the KPIs for the manager.

And more importantly, the sponsors of the program, those managers who requested or supported it, are pleased to see impact objectives detailing how this program would drive improvements in the business. Even program coordinators and owners who communicate to participants and decide on who should participate are guided by these objectives. Objectives are powerful definitions of the success that mobilize all of those involved to design for these desired outcomes, essentially designing for results.[4] Figure 20.3 illustrates how objectives, which are developed by analysts in the needs assessment phase, are needed by the different stakeholders.

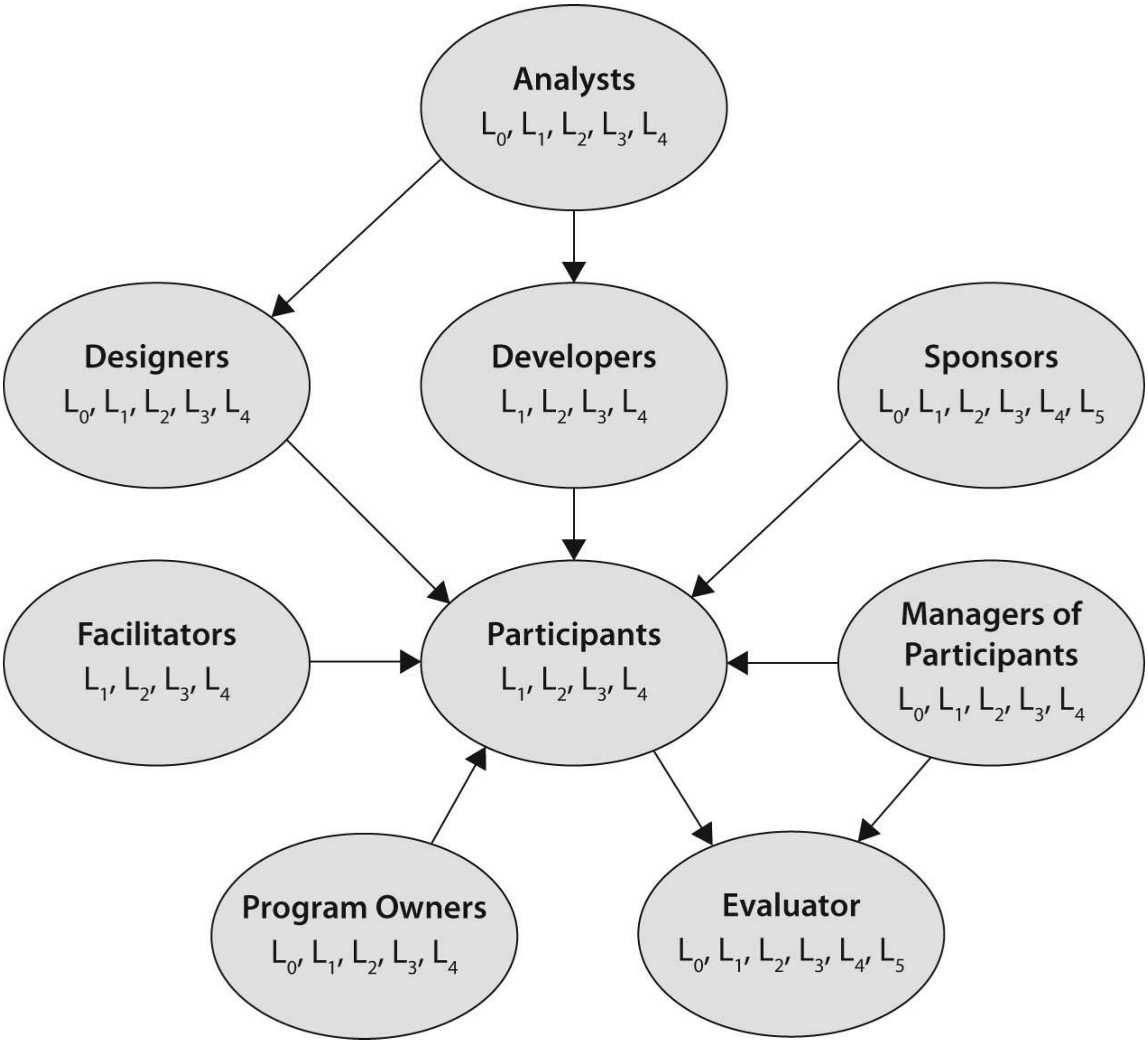

Figure 20.3 The Objectives Needed for Important Stakeholders

Step Four. Make It Matter: Designing for Input, Reaction, and Learning

The key to making it matter is to develop a program with content that is relevant, meaningful, and important to the individuals and the organization, is action-oriented, and is something usable. This requires prospective participants to decide if this is the right program for them, making sure that they are attending at the right time and the right place, with the proper support. This helps the developers provide examples, activities, and exercises that reflect not only what the participants are learning, but also what they will do with what they've learned and the impact it will have. What is happening inside the program is very relevant to what the participant needs in the workplace. It makes it more connected. It makes it matter to the participant.

Measurements at these three levels are very straightforward. For level 0, it's counting people, volume, and time, which is very fundamental. For level 1, it's measuring the feedback at any point in the process but is usually taken after participants learn. The measures that are the most important are:

- Relevant to my work.
- Important to my success.
- Content that I will use.
- Something I will recommend to others.

These are the powerful measures that often can predict application. For measuring learning, measurement techniques range from self-assessment of learning and skills to more objective methods of testing, problems, demonstration, simulations, and role-plays. The investment in learning measurement is necessary when it's important that knowledge and skills be clearly demonstrated. A precaution is in order. Some organizations invest too much in a learning measurement to the detriment of not measuring beyond learning. When there's a trade-off, we need to make sure that we have resources available for the next two levels of measurement—application and impact. For more information, see other resources.[5]

Step Five. Make It Stick: Designing for Application and Impact

While the previous step focuses on getting the content right by making it matter, making it stick is about using the content appropriately and having the desired impact. This represents one of the most critical issues facing talent development. It starts by clearly understanding the importance and nature of the issue. The reality is that if people do not use what they've learned, then it has failed for the organization. Just because participants learned something doesn't necessarily mean that they will actually use it. Unfortunately, research continues to show that much of what is learned in formal talent development programs is not used on the job. Some put this percentage in the range of 60–90 percent. This is a huge indictment for the learning profession, to admit that 60–90 percent of your budget is wasted, because participants don't use what they have learned. This issue has been the subject of a lot of effort and research, particularly in the last two decades. The issue of transfer of learning to the job commands attention. The issue is not just measuring to see if transfer has occurred, but designing for the transfer that is needed.

For too long, talent development professionals have failed to follow up to see if the transfer actually took place, hoping instead that participants have actually used it. This lack of measurement at the application level was based on three false assumptions:

1. If it's important to them and they've learned it, they'll probably use it.
2. When participants leave the program, they are out of our control.
3. If they're not using it, I don't really want to know because I can't do anything about it.

Data must be collected to see if learning has been transferred to the job, at least on some type of sampling basis. A variety of data collection methods can be used, such as:

- Surveys
- Questionnaires
- Observation
- Interviews
- Focus groups
- Action planning
- Performance contracting
- Records monitoring

For more information on data collection, see other resources.[6]

It's helpful to think of the transfer of learning issue as a process that occurs over time, and it involves all the stakeholders as they design for application and results. The designers are pushing this issue through the design cycle, creating expectations in the beginning, and communicating expectations throughout the process. Program administrators are taking the same approach. Program developers are inserting job aids, application tools, and action plans to ensure that transfer takes place.

The three most important groups that can really make the difference are in the transfer of learning are: the participants, the managers of participants, and the facilitators. Although they are comfortable with teaching content, the facilitators can make a difference by inspiring, encouraging, supporting, and even requiring individuals to use what they've learned. Absent the facilitator, as in the case with mobile learning and e-learning, the designers and developers have to assume the role of facilitator and step up their efforts to motivate participants to use what they've actually learned. For these groups, it's helpful to think of the nine possible boxes that can be pursued in Figure 20.4. Each box represents actions that can be taken to transfer learning to the workplace. Time refers to before, during, and after the program, and the key stakeholders are the participants, managers of participants, and the facilitator/program administrator.

	Timeframe		
Roles	Before	During	After
Manager	1	2	3
Participant	4	5	6
Facilitator/Organizer	7	8	9

Figure 20.4 The Transfer of Learning to the Workplace

The two most powerful boxes for transfer are the manager of the participants before and after the learning (box numbers one and three). This inspires program administrators, designers, and developers to create activities for the managers of the participants that take a little time to do. It takes only about 30 seconds for a manager of a participant to make the transfer by having a 15-second discussion to set expectations with the participant before attending the program. And then have a 15-second follow-up when participants return to reinforce the expectations and offer support. Making it stick is not as difficult as it seems. It just requires some planning and effort by the entire team to make it work.[7,8]

Step Six. Make It Credible: Measuring Business Results and Calculating ROI

Although making credible appears to be daunting, the task is not that difficult and can be one of the most rewarding parts of the process by clearly seeing the connection of the program to business measures. Developed in a credible way, this sometimes includes pushing the evaluation to the ROI level, using processes that the chief financial officer would approve. At the same time, this can be accomplished with fourth-grade mathematics. The challenge is to overcome the fears and barriers to moving to this level of evaluation. Although it is necessary in today's environment and executives want it, there's a reluctance to step up to this challenge.

The principal barrier is fear of results, and this should be tackled in a very proactive way. To be responsible and accountable, if a program is not successful, you need to understand why it's not working and correct it. If you are proactive, your various stakeholders will accept this easily, even if the results are very negative. But if you wait to be asked for the impact or maybe ROI, then it places you at a disadvantage. This should be tackled from the mindset of process improvement, making programs better, even if they're not delivering the desired results.

The second barrier is that it appears too complex. This is a myth. The ROI can be developed in just a few systematic steps using a logical model. And the third barrier is lack of time for evaluation. It will take extra time, but you can save time by using business impact very selectively, only measuring about 10 percent of programs at the business impact level each year, and maybe half of these (5 percent) are pushed to the ROI level. Also, you can save time by designing and planning for results, sharing the responsibilities with others along the way. The fourth barrier is the lack of budget. This is a myth. Impact and ROI evaluation is not all that expensive.

The payoff can be tremendous because evaluation at these levels connects to the business and must be pursued for major programs that attract executive attention. Results at this level can increase support, enhance commitment, and influence funding. It's also good for the talent development team to know that it makes a difference to the business.

The first part of step 6 is to sort out the effects of the program from other factors. When a business impact measure is improved, the question of what actually caused the improvement surfaces. How much of this improvement goes to this program? This is labeled isolating the effects of the program. Some refer to this as attribution, how much should be attributed to the particular project. This can be tackled in a variety of ways, such as classic experimental design, implementing the program with one group and comparing it to a comparable group. The following is a list of techniques that are beyond the particular scope of this book but are easily accessed in other references:[9]

- Use of control groups
- Trend line analysis
- Analytical methods
- Participant's estimate
- Management's estimate of impact
- Use of experts/previous studies
- Calculate/estimate the impact of other factors
- Customer input

The important issue is that this step is always pursued and accomplished, as evidenced by over 5,000 certified ROI professionals when they conducted their ROI studies using the standards of the ROI methodology.[10]

After the results of the program are sorted out, the data are converted to monetary values. If it's a measure that matters, more than likely it's already been converted to money. This is a way executives understand a problem or an opportunity. If it's a problem, they see what it's costing them. If it's an opportunity, they see the value they should be able to generate if they take advantage of the opportunity. It's often a matter of finding the measure already converted to money. And if that is not available, then there are other techniques that might be helpful, such as finding it in an external database. Still others can involve estimations. The following list shows a variety of approaches.[11] If it cannot be converted to money credibly with a reasonable amount of resources, it's left as an intangible:

- Profit/savings from output (standard value may be available)
- Cost of quality (standard value may be available)
- Employee time as compensation (standard values are available)
- Historical costs/savings from records—you calculate it
- Expert input—internal or external
- External studies available online
- Linking with other measures
- Participant estimation
- Management estimation
- Estimation from staff

The next step is to capture the cost of the program, making sure that the direct and indirect costs are contained, so that every cost is there. And this involves bringing in all the costs as shown in Table 20.2. Fully loaded costs represent ultimate credibility for that side of the equation. And finally, the next step is the ROI calculation.

Direct	Indirect
• Program materials • Facilitator costs • Facilities • Travel	• Needs assessment • Program development • Participant time • Administrative overhead • Evaluation

Table 20.2 Tabulating Program Costs

The traditional financial ROI is the comparison expressed as a percentage when the fractional values are multiplied by 100. In formula form, the ROI is:

$$\text{ROI (\%)} = \frac{\text{Net program benefits}}{\text{Program costs}} \times 100$$

Net benefits are program benefits minus costs. This formula is essentially the same as the ROI for capital investments. For example, when a firm builds a new plant, dividing annual earnings by the investment develops the ROI. The annual earnings are comparable to net benefits (annual benefits minus the cost). The investment is comparable to fully loaded program costs, which represent the investment in the program.

An ROI of 50 percent means that for every dollar invested, the dollar is recovered and an additional 50 cents is returned. A program ROI of 150 percent indicates that $1.50 is returned for every dollar invested after the dollar is recovered.[12]

Step Seven. Tell the Story: Communicate Results to Key Stakeholders

With the results in hand, now comes the valuable next step—making sure the appropriate audience knows about it. This is a matter of understanding the audiences, such as those listed in Table 20.3, and following a seven-step process to communicate and use results.

Primary Target Audience	Reason for Communication
Client/sponsor	To secure approval of results
All managers	To gain support for learning and talent development
Participants	To secure agreement with the issues, to create the desire to be involved, and to improve the results and quality of data
Top executives	To enhance the credibility of the learning and talent development team
Immediate managers of participants	To reinforce the application and impact and build support for the program
Talent development team	To drive action for improvement
Facilitators	To see the results of their work
HR executive	To show the complete results of the program
Evaluation team	To underscore the importance of measuring results
All employees	To demonstrate accountability for expenditures
Prospective participants	To market future programs

Table 20.3 Common Target Audiences

1. Define audiences.

2. Develop the complete report.
3. Create short versions of the report.
4. Select media.
5. Present information.
6. Drive improvement.
7. Analyze reaction to the communication.

The presentation can range from executive briefings to blogs. The content can range from a detailed report to a one-page summary as shown in Figure 20.5. The important point is to tell a story with results. Storytelling is very effective, and it's the best way to get the audience memebers' attention and have them remember the results. The five levels of outcome data represent a compelling story with very credible, executive-friendly evidence. There is nothing more powerful than a story with business results, and that's possible now with all of the results.[13]

The Leadership Challenge
- Four-day workshop with actions plans and support tools
- Each participant selects two KPIs to improve using the competencies with his or her team

Reaction – Objectives Met

Relevance	✓
Important	✓
Intent to use	✓

Application Objectives on a 5-point scale

Extent of use	4.3
Frequency of use	4.5
Success with use	3.9

Barriers

Not enough time	23%
Lack of support	18%
Doesn't fit	14%
Other	10%

Learning Objectives Met Pre- Post- Improvements	
1. Communicate values and beliefs	48%
2. Focus on key values through actions	57%
3. Build collaboration, teamwork, and trust	42%
4. Strengthen others abilities to excel	69%
5. Inspire others to share a common vision	53%
6. Recognize the accomplishments of others	67%

Figure 20.5 Example of an Executive Summary

Step Eight. Optimize the Results: Using Black-Box Thinking to Increase Funding

Now for the capstone of this eight-step process—using these data to influence the funding for talent development programs. It is helpful to think about the power of the evaluation completed in Steps 4, 5, and 6. The results are there, and you know what caused success or failure. If the results are disappointing, you know how to make corrections. Black-box thinking is needed at this step. In the airline industry, black boxes point to the cause of a crash of an airplane. Investigators analyze the data with the goal of preventing an accident from occurring again. The analysis usually reveals the cause and identifies the actions to be taken to prevent this type of accident in the future. The actions may involve changing the design, procedures, or process. As a result of using this process, the airline industry is the safest mode of travel on the planet and is one of the safest industries in the world. This is caused by relentless pursuit of process improvement to do it better.[14]

That type of approach is needed in the learning and talent development field and step 8 makes it work. As illustrated in Figure 20.6, programs are evaluated and the data are used to make them better. When this happens, results will improve, and ultimately the ROI is enhanced. Increasing the numerator or decreasing the denominator or both can improve the ROI calculation. Having more impact from a program increases the numerator. Having less cost for the program decreases the denominator. This process is optimizing the return on investment.

Figure 20.6 Use Results to Optimize and Allocate

Optimizing the ROI presents the best case for increasing funding, providing a very credible rationale for additional funding. This is your ultimate goal, to make sure that funding is there in the amount that's needed or enhanced so that talent development adds more value. This approach ensures that executives see learning as an investment and not a cost that can be controlled or reduced.

In most organizations, it appears that learning is a solution to almost any problem. At the same time, the learning budget is the first to be cut in a time of downturn or uncertainty. Learning is something that is nice to do to when there are ample funds for it. This has to change so that executives clearly understand that learning and talent development is not a cost that can be cut, but an investment that needs to be enhanced, supported, and maintained. This can only be accomplished with credible data that show that learning is an investment, with a clearly defined return on investment for the major programs.

Conclusion

So there you have it, the evolution of measurement from a process that focuses on capturing value to a process that is designed to create value. This is accomplished by having all stakeholders focus on success and design programs to deliver the desired level of success. In the current environment, the level of success that's needed is the business contribution of learning and talent development. Business impact and ROI evaluation for talent development programs is achievable and is being achieved by many organizations.

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Chapter 21

Enriching Executive Development: The Essential Partnership Between Human Resources Professionals and Executive Coaches

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IN THE ARSENAL OF TOOLS SENIOR HUMAN RESOURCES (HR) PROFESSIONALS USE TO develop business leaders within their organizations, executive coaching is well-established among them. However, little if anything has been written about HR leaders' relationships with external executive coaches.[1] Little has been expressed, or is perhaps understood, about the leap of faith and commitment these professionals can make to each other thus ensuring that the client[2] and the organization benefit fully from this investment in an executive's development.

In this chapter, the relationship between a senior HR professional, often the chief human resources officer (CHRO), and an external executive coach working with top business leaders is explored. It is an essential partnership because of its singular nature, and that through this collaborative partnering the coaching is enriched as a meaningful developmental resource. In my experience, this committed collaboration unfolds through a sequence of key actions.

Further, this essential partnership is reinforced by and thrives on (1) four primary relationship factors, and (2) four practice dimensions. Finally, most experienced executive coaches can articulate a model that typically includes four phases (data-gathering, feedback, coaching, and consolidation) and unfolds over several months to a year (Wasylyshyn, 2014). However, regardless of the specifics of a coach's model, the aforementioned primary relationship factors and practice dimensions combine to maximize the development investment in executive coaching specifically in terms of its sustained impact.

Four Primary Relationship Factors in the HR Professional/Executive Coach Essential Partnership

The identification of the four primary relationship factors is based on 30-plus years of experience[3] that has included many essential partnerships with senior HR professionals. Specific input for this chapter is from the following HR leaders: Benito Cachinero-Sanchez, senior vice president of human resources at Dupont; Joe Forish, former CHRO at Rohm and Haas (now Dow); Tom Kaney, former senior vice president of U.S. Pharmaceuticals in global GlaxoSmithKline; Trish Maxson, CHRO of a global real estate company, JLL; and Deb Weinstein, former vice president of human resources in the research and development division of GlaxoSmithKline.

The four primary relationship factors that influence and solidify these essential partnerships are: (1) mutual trust and respect; (2) clarity of roles, responsibilities, and objectives; (3) clear boundaries of confidentiality; and (4) constructive triangulation. While these factors are fundamental in effective coaching relationships generally, there are nuances of significance in how they play out in these essential partnerships.

Mutual Trust and Respect

The primary relationship factor of trust and respect is best explained by HR professionals who have experienced such essential partnerships. In the words of Cachinero-Sanchez, “Trust and respect are essential in this kind of partnership on a personal relationship level, but there has to be trust and respect as well for the intrinsic value and competence that each one brings to the table. If the partners are not evenly matched in this regard, e.g., one of them is thinking the other is not appropriately competent, the personal trust and respect will not overcome the gap” (personal communication, October 31, 2016).

In Forish’s view, “There has to be a mutual level of respect and intrinsic trust that each shares the best interests of the client and that neither will play games or engage in self-promoting behavior at the expense of the other or of the organization” (personal communication, November 3, 2016).

Weinstein emphasized the critical collaboration necessary when working with senior leaders. In her words, “There has to be trust all around the triad of client, coach, and HR partner and this trust fosters an environment that encourages challenge and open discussion that ensure focused efforts throughout the coaching—the necessary efforts to effect the behavior changes being sought” (personal communication, November 4, 2016).

Clarity of Roles, Responsibilities, and Objectives

Essential partnerships begin with a clear understanding of each other’s roles and responsibilities. Cachinero-Sanchez maintained, “The inside/outside partnership can be very effective as each of the prisms that the partners bring to the table are unique and distinct. Yet, it is important that before the work is done, there is a clear understanding of how the body of the work will be conducted—who will take the lead in what, and what principles will be used as the work unfolds” (personal communication, October 31, 2016).

Role clarity is important for every coaching engagement to be successful. Defining participants and timeframes are essential components of role clarity. Through their respective roles, these partners are committed to the progress of the identified executive and by extension to the continued success of the organization in which the executive is a key leader. In other words, the positive effects of this essential partnership can have cascading effects not just for the participating executive but for the whole organization. Further, in their reciprocal partner cadence, there is something in the partnership for both the HR professional and for the consultant, as well as for the executive.

For the HR professional there is the opportunity to deepen the leadership bench of the organization, increase his or her understanding of the executive client, and enrich rapport with this leader thus becoming an even more valued resource to him or her. Further, especially if the external coach is trained in the behavioral sciences, the HR professional may acquire deeper insights into employee motivation, fears, psychological defenses, and work-related anxieties. For the executive coach, there is the certainty that the client has been depicted accurately and that updates on the client’s progress or lack of progress are specific and timely enough to be addressed effectively in the coaching.

Clear Boundaries of Confidentiality

While the topic of confidentiality should always be discussed and understood at the outset of an individual executive development engagement, the HR/executive coach essential partnership can be tested at various points during the course of the work. For example, the boss or another senior executive or perhaps even a board member may request of the executive coach specific information that is beyond the established boundary of confidentiality. Such requests may involve the findings of tests used, comments made by others in organization-based feedback, or even information about the executive’s private life. This is when the HR and executive coach partners must discuss such requests, remain united in their commitment to the boundaries of confidentiality, and appropriately field such requests.

It is important to note that when there is enough communication exchanged regarding traction of the coaching process and progress being made, the pressure for confidential information rarely occurs. Further, when members of this essential partnership remain vigilant about and active in giving the boss guidance about how he or she can abet the coaching process, all parties feel more aligned, engaged, and satisfied about the status and value of the engagement.

Constructive Triangulation

The term *constructive triangulation* refers to the steady flow of collateral information shared between the HR professional, the executive coach, and the client. As experienced as the executive coach may be, he or she remains an outsider and is, therefore, never as close to the daily play-by-play reality of how a top leader is leading—and perceived within the organization—as is the HR partner. Even in the presence of the most open, trusting, and transparent relationship with a client, for the executive coach to rely completely on the client's depiction of events is risky in terms of client objectivity. Typically, this flow of collateral information conveys timely input related to (1) people leadership actions and decisions, (2) the extent to which the client's behavior change efforts are perceived in the organization, and (3) other business factors that have implications for the coaching (e.g., an upcoming staff reduction).

Through the use of constructive triangulation (Wasylyshyn, 2017), a number of interrelated coaching psychodynamics are managed. These include clients' concerns about their relationships with their bosses and the trajectory of their careers. Further, there are times when sensitive personal events such as an impending divorce or illness of a family member can distract or otherwise decrease an executive's performance. In these instances, and with the client's permission, the HR professional and executive coach can collaborate on the best way to manage communication to senior management so that the client is not misperceived.

Further, in the confidentiality of this essential partnership, unexpected events can be managed effectively. For example, when a client raises the possibility of leaving the company, the coach preserves confidentiality but can also "signal" the HR partner. This can be done by the coach saying, "I think this executive is restless about getting to the next level of responsibility, so I urge you to tell the boss it's time to have a sit-down with this executive focused on future opportunities with the company." In such instances, the coach would also urge the client to have frank conversations with both HR and the boss. In short, through the HR/executive coach essential partnership, there is a careful sequencing of actions that can often result in retaining a valued leader. Research has shown that one of the primary reasons high-potential employees leave companies is the boss's discomfort in having a development dialogue (Ashkenas, 2014).

As the client makes progress in the coaching, the HR and executive coach partners can leverage constructive triangulation. Specifically, they can play an important "ambassadorial" role in conveying this growth and progress to key stakeholders in the company, especially as it relates to a client's readiness for increased responsibility (Wasylyshyn, 2017). For example, this can occur in organization-based talent reviews, as well as in private discussions with the client's boss and or senior talent management leaders. The HR partner can accomplish this with a convincing degree of granularity given his or her ongoing collaboration with the client's executive coach.

Maxson cited a factor that merits consideration and research. In her view, the value of the HR/executive coach partnership is amplified when the partners, "Help a company find and see the lovable aspects of leaders" (personal communication, November 5, 2016). Maxson's observation strikes a deeper chord as related to the complexity and potential of organization-based relationships. From the perspective of positive psychology, she hints at the weight, loneliness, and relentlessness of corporate-level leadership roles and how both the HR and executive coach can provide affirmation that influences positive emotion toward and within the leader. According to Fredrickson (2003, p. 163), "Because an individual's experiences of positive emotions can reverberate through other organizational members and across interpersonal transactions with customers, positive emotions may also fuel optimal organizational functioning." Further, both neuroscientists and psychologists, including Seligman (2006) and Hanson (2013), maintain that we can take advantage of the plasticity of the brain to cultivate and sustain positive emotions. In short, the astute and caring observations of clients' behavior as shared between HR and executive coach partners become a powerful resource. This is a wellspring for something senior business leaders are expected to give others but rarely receive themselves: focused empathy, encouragement, and compassion.

Four Practice Dimensions in the HR/Executive Coach Essential Partnership

Four practice dimensions I have used in coaching senior business executives also have implications for actions shared by the professionals in the essential HR/executive coach partnership. As indicated earlier, such shared activity can enrich and contribute to the sustained effects of development investments made in executive coaching. These four dimensions are referred to as: (1) echo, (2) anchor, (3) mirror, and (4) spark (see Figure 21.1).

Drawing by Joe Williams

ECHO	ANCHOR	MIRROR	SPARK
Repeating necessary messages at opportune times. Ensuring that the client hears the messages and takes timely action.	Reinforcing clients' insights and lessons learned, and emphasizing their applicability in the present.	Ensuring that the client sees what needs to be seen about both his or her most effective and less effective leadership behavior.	Igniting the client's new thoughts and/or bolder actions that can help accelerate organization success and/or personal contentment.

Figure 21.1 Four Practice Dimensions*

***These practice dimensions, while used in the coaching of executive leaders, are adapted for use in the *essential partnership* between HR professionals and executive coaches.**

Actions Taken from the Echo Dimension

Actions the HR partner and executive coach share in the echo dimension involve a frequent reminding or *echoing* to each other of the identified objectives of the coaching engagements. Their shared vigilance of this enables the focused assessment of progress made and an objective, fact-based scrutiny of the need and nature for any further development activity. For example, some clients may request a continuance with the executive coach. If such a continuance occurs, the coach's role shifts from *executive coach* to *trusted leadership advisor* (*TLA*) (Wasylyshyn, 2015); however, the essential partnership with the HR professional remains the same.

Finally, given the nature of company cultures, HR professionals can remind ("echo") messages to executive coaches about cultural realities that must be taken into account as they work with executive leaders. For example, the CHRO partner in a company that had just completed a major merger reminded the coach never to use the phrase "legacy issue." In this company, the "legacy" word had come to be heard as a linguistic sabotaging of ongoing culture change initiatives.

Likewise, given comments an executive client may make about the effectiveness of the coach's HR partner, the coach has the opportunity to give this partner timely feedback. The feedback may be positive, such as praise for work well-done, and therefore reinforcing the HR partner's activities and helping build emotional resonance between the executive client and the HR professional (Goleman, Boyatzis, and McKee, 2002). Or the feedback may be critical. For example, senior business leaders often express disappointment about an HR leader's responsiveness regarding pressing people issues (e.g., recruitment, performance, compensation issues). In such instances, and with the permission of the client, the executive coach has the opportunity to convey (*echo*) constructive feedback. This can influence candid dialogue between HR partners and coaching clients with the goal of improving their rapport and the HR partners making productive adjustments.

Actions Taken from the Anchor Dimension

As this essential partnership takes hold, there are mutual observations regarding the client's progress that yield opportunities for the partners to compare notes and to take actions that help the executive internalize, or *anchor*, the progress in ways that make the new behavior reflexive. For example, with an executive who must continue to address conflicts in his team, the HR partner, who has the opportunity to observe the executive in action, can both reinforce the client's progress and heighten his attention to this issue before certain team meetings. The executive coach can support progress made by encouraging the leader to continue to take the specific actions that most influenced his desired behavior change.

Actions Taken from the Mirror Dimension

Taking actions from the mirror dimension, that is, the timely holding up of a mirror to help a client see what he or she needs to see in order to be maximally effective is a familiar activity and responsibility for both HR professionals and executive coaches. However, in this essential partnership, the power of their committed truth-telling to the client is intensified. Specifically, the constant comparing of notes in essential partnerships sharpens and/or signals when truth-telling needs to occur and/or be amplified. While each partner will have her own way of delivering it, the objective is shared.

Use of this *mirror* dimension can also be useful within the essential partnership itself. For example, a CHRO told me that her language was "too shrinky" in meetings with other C-level leaders so she intentionally used less psychological terms. Likewise, an executive coach told her CHRO partner that his habit of rapidly bouncing his foot up and down in leadership team meetings sent the message that he was either bored or impatient. Unaware of this body language, he made conscious efforts to avoid it and in doing so, the depth and quality of team discussions improved significantly.

Actions Taken from the Spark Dimension

The value proposition of the HR/executive coach essential partnership is also increased by actions taken from the *spark* dimension. Specifically, through their ongoing dialogue, these partners can identify actions and/or additional resources for enriching the coaching. For example, with executives who need to be more impactful in formal stage presentations, arrangements can be made for them to work with a communications expert who will use video technology to generate positive effects. Further, given the executive coach's experiences in numerous other companies, there is an accessible pool of possible ideas and/or approaches that can influence or *spark* the thinking and planning of the HR partner in terms of talent management practices.

Conclusion

The *essential partnership* between internal human resources leaders and external executive coaches is a win-win for everyone involved: these professionals, their executive clients, and for the companies in which the clients work. The reverse is also true. The value proposition of executive coaching as an executive development resource is diminished when it does not involve the reciprocal commitment characteristics of such partnerships. This essential partnership is fueled by mutual trust, collaborative respect, role clarity, and safe boundaries of confidentiality. Further, such partnerships will need to increase given the new normal for commercial ventures and those in the not-for-profit sector as well. All these workplaces will require highly evolved leaders who are relentless, market facing, intuitive, and nimble enough to synthesize quickly the barrage of both quantitative and qualitative data flying at them often from stakeholder groups spanning the planet.

Increasingly, the surge of this new normal intensity, complexity, and uncertainty is expected to be managed by leaders promoted before they have had sufficient time to acquire the experience and concomitant wisdom to lead consistently well. They will need to mature rapidly in informed places where they can think aloud with smart colleagues, clarify their thoughts, vet their concerns, integrate it all into coherent and sound strategic decisions, and then direct the execution that will ensure competitive and profitable distinction. This rapid development of mature and ready leaders will also need to occur in supportive places—like within a strong coaching relationship.

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Notes

1. For the prpose of this chapter "executive coaches" refers primarily to professionals who integrate their own business experience and/or understanding of business dynamics with training in the behavioral sciences and who apply this integration in leadership development engagements with senior executives. These executives are focused on making certain behavior changes that they believe will increase their overall effectiveness. Often these consultants are former senior level human resources professionals or consulting psychologists.
2. In this context, the executive is considered the "client" and the organization is the paying "sponsor." This ensures an appropriate boundary of confidentiality for the executive—critical to establishing and maintaining trust. However, at the same time, there must also be sufficient communication regarding progress so that organization stakeholders are satisfied with this investment in the executive's development.
3. This experience includes consultation to hundreds of business leaders representing every global sector and a broad array of industries.

Chapter 22

Change and Compassion: The Essence of Effective Coaching

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THE VALUE AND NECESSITY OF COACHING FOR EXECUTIVES HAS BECOME MORE CRITICAL than ever. Given the increasing complexities of the modern business environment, leaders need to adapt more frequently than in previous times. They are often well trained in the financials but less well trained in how to manage and lead people. For their development, leaders will be turning to coaches for help to develop their talent.

Coaching is a type of helping relationship. Other such relationships include manager-subordinate, doctor-patient, and even parent-child. While coaching has similarities to these other helping relationships, we at the Weatherhead School of Management view coaching specifically as a helping relationship focused on assisting the coachee to make progress in his or her *intentional change*. Drawing from intentional change theory (ICT; Boyatzis, 2008; Boyatzis and McKee, 2006), the process centers on helping the coachees articulate their personal vision or ideal future state; one which is defined by the coachees themselves and which is a reflection of their core values, aspirations, and dreams.

The entire change process takes place in the context of key relationships. The establishment of a coach-coachee relationship which is *resonant*—trusting, inspiring, and energizing—appears to be key to the sustainability of any change or learning effort. That is, the relationship is developed through an interpersonal resonance derived from positive emotions: mindfulness, hope, and compassion. This helps excite the coachees about the future they envisage for themselves, as well as providing them with the tools needed to maintain this excitement as they move toward this future.

We call this approach *coaching with compassion*. For the most part, this has not been standard practice throughout the history of coaching. Many coaching frameworks emphasize the achievement of externally derived or defined standards as the benchmark for development. They hold coachees accountable to company metrics, numerical targets, and bottom lines. We refer to these approaches as *coaching for compliance* and note (with regret) that they continue to enjoy pride of place in the coaching systems and protocols employed by many organizations.

These practices can have the effect of depersonalizing the coachees. They reduce them to cogs in a wheel, greased to operate on a human production line. They also see coachees as sources of problems to be fixed, rather than possibilities to be groomed. Coaching for compliance not only diminishes the professional development of the coachees, but it is also ineffective for leveraging their talent and using it to benefit the organization. At best, it results in transient, short-term behavioral changes with no lasting effect (Boyatzis, Smith, and Blaize, 2006; Smith, Van Oosten, and Boyatzis, 2009).

In this chapter, I demonstrate why coaching with compassion is best-suited to developing talent in organizations. The chapter begins with an overview of the ICT framework, including each of its five discovery phases. The role of positive and negative emotional attractors and how these allow an individual to cycle between the discovery phases is then explored. This includes an outline of the neural and hormonal bases of these attractors. The chapter concludes within a discussion of the value of peer coaching approaches. These harness the merits of coaching with compassion while also providing a potential game-changer in coaching and an effective, inclusive, and low-cost alternative to standard coaching practices.

The Five Discovery Phases of Intentional Change

ICT is similar to a number of other theories of motivation and change. As with Ryan and Deci's (2000) self-determination theory, ICT stresses the utmost importance of individual competence and autonomy, as well as a sense of meaningful relatedness to others. As with Higgins's (1998) regulatory focus theory, ICT emphasizes a promotion-focus orientation (focused on one's hopes and the pursuit of a personal ideal) over a prevention-focus orientation (focused on promoting safety and security over growth). And as with Fredrickson's (2001) broad and build theory, ICT recognizes the power of positive emotions; their ability to broaden our understanding and appreciation of ourselves and others over time, and to promote the enhancement of our overall well-being.

What distinguishes ICT is its recognition that sustained, desired change seldom occurs in a consistent and continuous manner, and that it may also apply at different organizational levels of analysis. Rather, change is more often punctuated and discontinuous. In this way, the process of intentional change represents an individual's progressive shift through several stages, known as *discovery phases*. Sustained, desired change occurs as fractals of these phases across multiple levels, including with teams, organizations, communities, countries, and even global change.

Within each phase is a set of behaviors or thought processes that inform the remaining phases and optimize the individuals' ability to navigate their way through them. Each phase is a necessary step in laying the groundwork for individuals to identify their ideal state, and then the best combination of steps to achieve it—with plenty of scope for revision and experimentation thrown into the mix. As we will see, each phase requires a tipping point—the positive and negative emotional attractors—to trigger a shift into the next phase, and these phases are grounded in hormonal and neural network activations.

The Ideal Self

The first phase of the intentional change process hinges on deep personal introspection and asking oneself the questions, "Who do I want to be?" and, "What do I want to do with my life?" These questions aren't prompts for individuals to consider discrete personal achievements in their professional career. Rather, they are an attempt to capture a more holistic and far-reaching sense of personal vision. They try to stimulate individuals' engagement with their own desires and capabilities, how they can reach for the proverbial stars.

It is all too easy to fool oneself into believing that what is actually another person's imposed perspective (what we have often called the *ought self*, in contrast to the ideal self) is in fact the ideal state people have thought of for themselves. A brief overview of the key differences between the ideal and ought selves is outlined in Table 22.1. The remainder of the chapter clarifies some of the distinctions not yet explored.

	Ideal Self	Ought Self
Driver	What a person wants to do	What people feel they ought to do
Motivation type	Autonomous	Controlled
Self-regulatory focus	Promotion	Prevention
Psychophysiological state	PEA*	NEA*
End result	Sustained desired change	Short-term behavior change

Table 22.1 Differences Between the Ideal Self and the Ought Self

*positive emotional attractors
*negative emotional attractors

Determining what one's ideal self is requires considerable contemplation and self-examination. One must be free to roam the landscape of possibilities in pursuit of this ideal. Effective coaching recognizes the tension between helping coachees arrive at their vision of an ideal self while providing guidance without veering into the territory of the ought self.

The Real Self

In contrast to the ideal self, the real self should prompt the question, "Who am I now relative to where I *want* to be?" It refers to who and what people *currently* are, and how that compares to their ideal self. Getting at one's real self requires a combination of honestly reasoned, factual assessments about one's strengths and weaknesses. It covers potentials and shortcomings; achievements and failures; knowledge bases and gaps in understanding; the nature of relationships; and so forth.

By reasoning honestly and critically about oneself, and allowing for honest and critically reasoned feedback from other reliable people who one trusts, the real self represents a kind of personal balance sheet about who one is. It is a catalog of all the various factors that characterize oneself and which make up one's current position in life.

In addition to this process of soul searching, the real self may also be determined by some combination of a range of feedback modalities. These include many of those methods widely subscribed to and employed by numerous modern business organizations, such as 360-degree feedback assessments and personal strengths inventories. These can provide individuals with a view of how they are perceived and experienced by others, which further informs the real self.

Coaches can help establish a coachee's real self through carefully worded, chosen, and timed cues. This part of the intentional change process is more effective, for example, if coaches have their coachees detail their strengths before exploring their shortcomings, and if they frame current deficiencies or gaps as opportunities to pursue rather than problems to be fixed.

Setting a Learning Agenda

The third discovery phase of the intentional change framework is setting and developing a learning agenda. Taking the previous two phases together, this entails a recognition that gaps inevitably exist between various aspects of the ideal and real selves. As such, individuals need to make a commitment to closing these gaps by identifying practices and behaviors that will move them closer to their ideal self. In general self-development terms, such a learning agenda may take the form of a personal action plan, which explicitly details the steps one must take to prompt effective, sustained change. This also sets down the strategies for navigating the potential obstacles and roadblocks people feel they might encounter on such a path.

A major element of this phase is an emphasis on practicing *mindfulness* (Boyatzis and Akrivou, 2006). In the context of intentional change, mindfulness refers to remaining aware of the various practices and behaviors that move one toward the ideal self. It also means doing whatever one can to ensure that anything that moves one away from the ideal self is appropriately addressed or mitigated. Mindfulness promotes an ongoing awareness of where one's real self lies relative to the ideal self. When practically applied in day-to-day action, a mindfully crafted learning agenda firms up the resolve to change.

While developing a learning plan ultimately falls to the coachee, coaches can provide encouragement and feedback on specific details. They can use sympathetic questions to ensure that each aspect of the plan is optimal for the pursuit of the coachee's ideal self. Coachees will have different learning styles (see Kolb, 1976), and so configuring coaching sessions to leverage an their individual learning styles (e.g., are they more practice-oriented or abstraction-oriented?) will best ensure that they stay on the path toward their ideal self.

Experimentation and Practice

This phase of the intentional change process lays the platform for making adjustments to aspects of one's learning agenda. If individuals' agendas are static, and their real and ideal selves are perfectly synchronized, then there is no possibility of creating opportunities for all new realizations of one's self. The act of aspiring toward the ideal self requires an ongoing inner dialogue about the various cues, behaviors, and activities that guide one's courses of action and behavior in that ideal direction.

Taking the time to thoughtfully experiment with and refine the practices that have proven successful in pushing oneself toward the ideal self is a crucial step in ensuring that one remains constantly aware of all the available channels at his or her disposal for achieving sustained, desired change. As with the learning agenda that it seeks to update and refresh, the exact nature and potential benefits of the experimentation and practice process will reflect both the individual carrying out the experimentation, and the particular domain in which that individual wishes to change.

The heightened self-awareness that comes from people reasoning honestly and critically about their real selves can also be used to recognize the practices and behaviors that specifically work for *them*. It stands to reason that no single approach to achieving desirable change is going to work the same way for all people, all the time. Experimentation, with oneself as the participant, and practical refinement, with oneself as the judge of what constitutes best practice, ought to be a life-long process of self-education.

Coaches can provide a useful sounding board in this respect. They can help the coachees determine exactly *why* certain facets of their learning plan might not have worked as well as they might have hoped, and suggest alternative strategies that might be more fruitful. Coaches may also recommend new routines for which these strategies might be better executed in practice.

Building Resonant Relationships

Coaching will be more successful when the coaching relationship is based on trust and support (Gan and Chong, 2015). While coaches are responsible for helping the coachees develop strategies and approaches that move them toward their ideal self, there is a deeper dynamic at play here.

Strong coaching relationships are based on *high-quality connections* (HQCs; Dutton and Heaphy, 2003)—interactions that make people more engaged, open to new ideas, vital and motivated, as well as making them feel more valued as individuals. These relationships are grounded in a feedback loop, where each person feeds off the feelings and thoughts of the other and is "tuned in" to the other's emotional state at any given moment. This reflects a deep sense of empathy on the part of the coach. They are not merely striving to develop the coachee as a means to an end, but *genuinely care* for them on a personal level. They see the personhood and emotional well-being of the coachee as an end in itself.

We call these *resonant relationships*. The rapport and goodwill in resonant relationships lay the foundation upon which productive coaching engagements may flourish. When coachees feel cared for and connected to, they will be open to a greater range of possibilities for growth and development. By showing *compassion*, coaches can help usher in an exchange between the two parties that not only fosters professional progression, but also drives the coachees toward the realization of their ideals—to being the best and most complete individual they can envision for themselves.

The Pull of Emotional Attractors

At the Weatherhead School of Management, we have shown that a coachee cycles through the discovery phases of intentional change in terms of emotional attractors—both positive and negative. Strange attractors, which include the positive and negative emotional attractors (PEA and NEA), pull things to and around us. When engaging with others, we are pulling their behaviors and feelings, their moods and thoughts into us. It requires a trigger—such as those captured by the five discovery phases—to shift someone out of one attractor and into another.

The PEA and NEA represent two states composed of distinctive psychological, physiological, and neurological characteristics that create a force—the attracting pull—around individuals' behaviors and beliefs about themselves and others. Each emotional attractor is additionally characterized by three separate, though overlapping, dimensions: the arousal of certain key emotional and relational features specific to the attractor in question; the activation of one of two distinct neural networks in the brain; and the arousal of one of two distinct hormonal systems in the human nervous system.

The PEA is characterized by varying degrees of positive emotions—the discrete feelings that we feel and express in response to pleasant situations, objects, or people, and which engender positive feelings in others: joy, gratitude, serenity, hope, pride, inspiration, awe, and love. Being in the PEA fills people with energy, enthusiasm, and excitement, and opens them up to new challenges, possibilities, and ideals.

In contrast, the NEA is characterized by broadly negative emotions, such as fear, anxiety, sadness, disgust, and despair. A prolonged pull into this attractor can deplete energy and reduce vitality, health, and well-being. It also prompts people to close down cognitively and emotionally. It reduces their willingness to challenge themselves, explore new ideas, and aspire toward a higher vision or purpose.

None of this should be interpreted to mean that the PEA is exclusively beneficial and that the NEA is entirely detrimental. Excessive time spent in the PEA can reduce an individual's impetus to address areas of concern, and may produce a "cotton wool" effect that prevents personal development. Likewise, time can be profitably spent in the NEA as a means of a call to action—as a sort of personal "kick in the pants." The dynamic is perhaps best captured by our maxim that we need the NEA to *survive* and the PEA to *thrive* (Howard, 2006).

In the realm of coaching, a higher dosage of PEA is needed. Given that most people experience negative emotions more sharply than positive ones (Baumeister et al., 2001), people in a coaching relationship should be exposed to a lopsidedly higher ratio of PEA to NEA, on the order of approximately 3–6:1. Assisting coachees with mastering this desirable ratio requires cognitively engaging them and optimizing their mood so that they can pilot themselves toward their ideal self. Achieving this requires using hope and compassion, connecting the coachees to their dreams, and focusing on their strengths. Careful and considerate use of framing questions that tap into their passions and ambitions is a particularly effective way of enabling this pull of attractors.

Coaches should also be cognizant of their own current position in an emotionally attracted state. They need to monitor themselves to ensure that they are not being swept up in an emotional tide which runs against the aims and aspirations of their coachee. Mindfulness on the part of the coach plays a crucial role in ensuring this emotional calibration.

However, emotions alone—either positive or negative—are insufficient to activate either emotional attractor. Both require the activation of distinct neural and hormonal systems, which have flow-on effects for the coachee's mental and physical health and well-being. The PEA usually involves activation of the brain's default mode network (DMN) and the arousal of the body's parasympathetic nervous system (PNS). The DMN is a discrete brain network that is activated when an individual is in a resting ("default") state, but is also implicated in relational exchange and empathic reasoning. Activation of this network also allows for openness to ideas and the ability to form meaningful social bonds. The PNS is one of the two divisions of the body's autonomic nervous system. Arousal of this system allows for healthy blood flow, muscle relaxation, and restfulness, among other functions, and is crucial for reducing stress and anxiety.

Conversely, the NEA is more closely aligned with the brain's task positive network (TPN) and the arousal of the sympathetic nervous system (SNS). The TPN is the brain network associated with analytical and task-oriented activity and is independent of the DMN. It is activated when an individual is engaged in goal-directed activity. While this serves obviously useful purposes, it also has the detrimental effect (as is relevant to coaching) of making people defensive and problem/solution-oriented, rather than promoting openness and curiosity. The SNS, in contrast to the PNS's "rest and digest" function, centers on the human fight or flight response. Arousal of this hormonal system constrains blood flow, tightens muscles, and shuffles the individual into a state of vigilance. It promotes anxiety and restlessness, and reduces the ability of an individual to focus (Boyatzis, Rochford, and Jack, 2014).

Coaching for compliance-based approaches is grounded firmly in the NEA. Such approaches have the effect of suppressing the DMN and activating the TPN. They put people into a defensive, analytic mode (like performing a "data dump" of sorts), for which they will focus on problems and gaps. This promotes a state of mind that is closed to new ideas and possibilities, and which views the self as a series of errors in need of solutions. More importantly, however, such sustained time spent in the NEA arouses the SNS and propels the fight or flight response into action, with a range of associated flow-on health impacts, including dangerously elevated stress levels—all during an engagement for which the coachee ought to feel very comfortable and at ease.

In contrast, coaching with compassion is primarily centered on cycling the coachees into the PEA. In doing so, their DMN is more readily activated, causing them to be more amenable to novel prospects and the pursuit of a positive vision which resonates with their ideal self. The activation of the DMN increases interpersonal awareness and empathy, which amplifies the coaching relationship and allows for a greater sense of rapport between coach and coachee. Coaching with compassion also arouses the PNS, reducing anxiety and stress on the part of the coachees, and allowing them to fearlessly focus on the pursuit of their ideals in a way that is bodily healthy and vitalizing, and that is personally sustainable over the long term (Jack et al., 2013).

In sum, the PEA triggers a cascade of constructive responses—cognitive, emotional, and physiological—which can enhance coachees' most adaptive behaviors and best develop their talent. Conversely, the NEA can bring on debilitating stress, which may have negative mental and physical impacts, and can hinder a coachee's effectiveness and development. It should be noted, however, that, just as a healthy balance of PEA and NEA is required to both thrive and survive, coaching with compassion also occasionally necessitates veering into the activation of the TPN and the arousal of the SNS.

Coaches should be mindful of the effects of both neural networks and hormonal systems in terms of their own coachees, what their individual needs are, and what balance ought to be struck that maximizes the likelihood of steering them toward their ideal self. Given that trust and openness are critical for a coaching relationship to flourish, coaches ought to take all these emotional, neural, and hormonal dimensions into consideration. This will better allow them to create a safe, positive learning environment in which the coachees can nurture and develop their talents.

Peer Coaching

The long-term objective of a compassionate approach to coaching is to create a global developmental culture of coaching across levels; group to organization, and so forth. Coaching is ultimately about making an impact across these multiple levels and so gaining an understanding of a coachee's placement in each level is critical to his or her development.

A coachee's social identity groups may provide some useful insights in this regard. Social identity groups are the collectives with which individuals identify and within which they find their own identity. These may be simply family or friends or may be fellow team supporters, coadherents of a religious faith, members of shared activities groups, and so forth. These groups can be positive or negative, inspiring hope and compassion or seeking to degrade and lower the esteem of others. The ambient tone of the group permeates its members and creates a powerful interpersonal resonance.

Coachees' membership in a social identity group will inevitably have impacts on their emotions generally. As coaches seeking to help people find their highest purpose and calling, it is crucially important for us to understand why social identity groups are meaningful to our coachees. We must evaluate whether their membership in these groups is moving them in the direction of their ideal self. Are others in this group suitably invigorating and inspirational people who will cycle them into their PEA? Or are they inherently negative and draining people who deplete their energies and leave them stranded in the NEA? When speaking about these groups, does the coachee speak with a tone that is hopeful, playful, and joyful, or is it one of feeling defensive, threatened, or compromised?

The conditions created for positive social identity groups to emerge tie into an application of coaching with compassion known as *peer coaching*. As the name suggests, peer coaching is coaching undertaken among and between friends, coworkers, and other like-minded people for whom there is a relationship of equality and respect. It is distinguished from most conventional coaching relationships, for which coaches are often a coaching specialist, and often a third party. In peer coaching, the peers may be coach, coachee, or both. The effectiveness of this approach to coaching stems from the nature of resonant relationships explored earlier: relationships that sustain enduring, positive change in the coachee. This resonance will be more achievable in relationships grounded in strong, supportive, social identity groups within organizations.

By ensuring that participants are involved with each other, peer coaching becomes an energizing means of promoting emotional and social intelligence among peers. They help members of an organization to form better relationships, in turn leading to greater adaptability. When harnessed in the service of an organization, they lead to a more engaged and sustainable workforce through which there is shared meaning and purpose. They additionally stimulate a form of emotional contagion which, through the effect of social mimicry, can in turn lead to new, more effective organizational norms (Van Oosten and Kram, 2014).

When implemented with compassion, peer coaching relationships can become a new cultural norm within an organization and a way in which all people—and not merely the C-suite executives—can reap the benefits of coaching with compassion. In turn, with an adequate level of organizational subscription and buy-in, peer coaching can become an effective, low-cost alternative to traditional coaching approaches. It can improve organizational bottom lines while simultaneously allowing talent throughout the organization to flourish, all while mobilizing the benefits of the PEA.

Summary

- Coaching with compassion, an approach to coaching based on resonant relationships and geared toward helping coachees make progress in their *intentional change,* is a more effective and humane approach to coaching than traditional coaching practices, most of which are based on coaching for compliance.
- Coaching toward intentional change is based on the transition through five discovery phases: the ideal self, the real self, setting a learning agenda, experimentation and practice, and building resonant relationships.
- Transitioning through these five phases requires cycling between two strange emotional attractors—the positive emotional attractor (PEA) and the negative emotional attractor (NEA). The PEA is primarily based on positive emotions, activation of the brain's default mode network, and arousal of the parasympathetic nervous system. The NEA is primarily based on negative emotions, activation of the brain's task positive network, and arousal of the sympathetic nervous system.
- Effective coaching requires establishing a higher ratio of PEA to NEA (around 3–6:1). Doing so will promote openness to ideas and a decrease of stress and anxiety on the part of the coachees, and allow them to explore possibilities and move toward their ideal self.
- Peer coaching provides a cost-effective way of developing talent organization-wide through coaching with compassion, using social identity groups to leverage the potency of the PEA as a means of promoting sustained, desired change.

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Chapter 23

The Role of the Manager in Talent Management

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LEADING AND MANAGING IN THE REAL WORLD IS A CHALLENGING TASK. YET NEW managers who move into positions requiring responsibility for overseeing people are frequently unprepared to assume this challenge. This is because they are often selected on the basis of skills other than those essential for leading and managing people. Worse, once promoted, many new managers rarely get the training necessary to deal with the inevitable people issues. Every organization needs to understand that managerial success is heavily dependent on quality leadership. Management training must begin with an understanding of the role of the manager in talent management.

Frequently an organization's understanding of the manager's role in talent management is obfuscated by management books and training dominated by faulty empowerment approaches that rarely address the "hard" realities of talent management described below:

- Managers cannot always hire superstars. They have to hire the best person available, and often that person is in the middle of the talent spectrum, not at the top.
- Managers who succeed in hiring superstars may find that supervising them is more difficult than they expected. In particular, they need to keep the superstar engaged and sufficiently rewarded to retain them.
- Even when expectations are set clearly, sometimes employees don't reach expectations, and managers have to jump into troubleshooting mode. Hopefully, the manager is able to catch the problem before it gets out of control.
- Every person cannot be a winner. Setting people up for success, even if they are not superstars, takes a lot of time and energy. Even when managers are proactive, dealing with failure is a big part of managing.
- Employees can't always work in their areas of strength. Managers must find ways to keep employees productive.
- Employees don't always earn praise. Those who do earn praise sometimes expect tangible rewards to be associated with praise. Managers must learn to deal with exployee expectations regarding praise.

Regardless of these hard realities, many managers are forced to take the lion's share of responsibility for the whole talent management process: talent sourcing, attraction, selection, on-boarding, training, performance management, rewards and incentives, retention, ongoing growth and development, succession planning, and leadership transitions.

In some cases, managers are unable to assume responsibility for talent management activities. Our research shows that too many leaders, managers, and supervisors fail, or cannot do, even the basics of leading, managing, and supervising. We have found a shocking and profound lack of daily guidance, direction, feedback, and support for employees among a broad swatch of managers in diverse industries at different levels. Why? They are afraid to, or they don't want to, or they just don't know how.

The manager—at every level—is the most important person in the workplace. Managers have influence over their employees' livelihoods and careers, their ability to add value and their ability to earn a living. Nearly everybody (employees and managers alike) is under pressure. Employees are expected to work longer, harder, smarter, faster, and better. Employees are not about to wait around for long-term rewards. They rely on their manager for meeting basic needs and expectations at work and for dealing with just about any work-related issue. They want to know, "What's the deal around here? What do you want from me? And what do I get for my hard work today?" The manager is not only the point of contact, but also the manager defines the work experience. In study after study, the relationship between employees and their immediate manager is the number one factor in productivity, morale, and retention, as well as employee learning and development.

The ongoing research conducted by my firm, RainmakerThinking, Inc., demonstrates what separates the most effective managers from those who are less effective. Over the course of more than two decades, we have studied what the very best managers do that is different from what less successful managers do. These are managers whose employees consistently deliver the highest productivity and quality; with high retention of high performers and high turnover among low performers; with the best business outcomes and high morale and team spirit; whose people are most likely to go on to become longer-term contributors and develop into new leaders.

What is the common denominator among those managers? An abiding commitment to consistently engage every direct report in an ongoing highly structured, content-rich one-on-one dialogue about that person's day-to-day tasks, responsibilities, and projects. The dialogue includes:

- Reiterating broad performance expectations and best practices.
- Talking through resource needs.
- Spelling out specific expectations in detail.
- Tracking performance and providing ongoing candid feedback.
- Offering guidance, direction, support, and troubleshooting.
- Holding people accountable for their actions.
- Recognizing and rewarding people when they go the extra mile.

Structured one-on-one discussions are the place for managers to engage employees. They provide a vehicle to get input from employees and to learn from what they are learning each day on their job. One-on-ones enable managers to strategize constructive activities with their employees, provide advice, and even a bit of inspiration. Through dialogue, managers can regularly think through the critical aspects of work with employees, work together on what can be done and what cannot be done, determine what resources are necessary to do the job, anticipate what problems may occur, define what expectations are reasonable, and analyze what goals and deadlines are realistic. To sum it up, the very best managers act like performance coaches.

Managers will sometimes say, "Do I really need to be coaching all of my employees all the time?" The short answer is, "Yes!" Every minute a manager spends coaching is "high-leverage time." That's a good return on investment.

Our research indicates that employees have different expectations for their managers.

Low performers want managers who are hands-off and uninvolved with the detail of what is happening with their employees. They want to be left alone, to collect the same paycheck as everyone else regardless of their performance. Low performers do not benefit from weak, hands-off, disengaged leadership. That's definitely not how to manage them!

High performers, on the other hand, want managers who are strong, highly engaged, and capable of differentiating among employees on the basis of talent and performance. They want managers who know who they are and what they are doing every step of the way, who let them know that they are important and that their work is important. They want managers who spell out expectations clearly; teach and encourage best practices; help them get the resources they need, avoid pitfalls, and solve problems. They want managers who get the low performers out of the way and reward the high performers when they go the extra mile.

The vast majority of employees are somewhere in the middle. What we have learned is that employees in the middle also benefit from strong, highly engaged leadership. Strong highly engaged managers can put almost any employee on a steady upward course. Initially some in the middle might resist coaching-style leadership, but they soon discover how much it can help in avoiding unnecessary problems. Ultimately they do more, better, faster, and achieve greater credit and rewards.

How to Be a Coaching-Style Manager for Low Performers

In our work with managers we learned that a great many of them invest most of their coaching time on low performers. They aggressively try to get them to improve their performance. This is because they wait until there is a recurring performance problem. It could be missed deadlines, poor work quality, or a bad attitude toward customers or coworkers. When it starts to look like the problem isn't going away, the manager brings the employee into his or her office. "There is a problem with your performance, and we need to have some sessions until 'we' coach you out of this problem."

Before the coaching begins, there is a possibility of latent or overt hostility. The manager might be thinking, "What is your problem?" The employee might be thinking, "Gee, why didn't you talk to me about this sooner?" Frequently the discussion ends with, "Don't do this again." This leaves both the manager and the employee wondering when the problems will recur. This is an unfortunate ending to the discussion because the employee either doesn't know exactly what the problem is or what steps are necessary to resolve the problem. The problem is likely to continue under these circumstances.

It's better to coach an employee before his or her problems become serious. A coaching-style manager engages the employee. This helps the employee establish benchmarks that will help solve problems at the onset. The coaching-style manager helps the poor-performing employee make a plan for completing benchmarks and checks on the status of these benchmarks with the employee frequently. When managers check on employee actions, employees will meet their deadlines.

Accountability is not a chant or slogan to be spouted around the office with the hope that people get it. Accountability works only as a management tool if the employees know in advance that they will have to answer for their actions. Managers need a fair and accurate process for tying consequences to each employee's actions. Assigning accountability involves:

- Spelling out expectations.
- Tracking employee performance every step of the way.
- Following through with consequences based on whether the employee's performance meets expectations.

This process cannot be done once or twice a year during formal performance evaluations. The process of creating accountability has to be formally documented often. The problem is that, like coaching, most managers rarely document performance rigorously unless one of their employees has serious performance problems. Usually this is a formal documentation process that will allow the manager to meet some requirements for taking disciplinary action. The process typically includes a date and time log for recording oral requests and warnings, as well as a process for written warnings. Only after the second written warning, the manager can put the employee on what is typically called a PIP, performance improvement plan.

PIPs are very common in the world of human resources. The PIP is considered a punitive disciplinary process that usually follows a number of oral and written warnings. Here's how it works: The manager and the employee get together to set clear expectations and work out a plan for what the employee needs to do to improve performance. Goals are broken down into concrete steps and to-do lists with tight deadlines and guidelines, and parameters are clearly spelled out. Every week, or sometimes every day, the manager is supposed to monitor the employee's performance according to the plan and document regularly whether the employee's performance meets expectations. In short, the standard punitive disciplinary process for employees with the most serious performance issues forces managers to do what they should have been doing every step of the way! The PIP process succeeds in improving performance about half the time. The standard PIP covers the basics of managing. If it works this well with employees who have developed track records of serious performance problems, imagine how well it works with employees who are already doing just fine.

PIPs can be used constructively for all employees. It shouldn't be used as a warning, a punishment, or a path out the door. It should become standard operating procedure for everyone. The standard performance improvement plan is the perfect format for documentation: The manager writes down expectations for the employee at the beginning of each week, and then monitors and documents closely how the employee's actions are meeting those expectations. This is exactly what every manager should be doing with every employee.

Without regular daily or weekly focused conversations, managers have no natural venue in which to provide employees with regular evaluation and feedback. Instead of regular and consistent "problem solving," which is a good thing, dealing with problems becomes a difficult conversation and is often avoided. On the other hand, when managers engage in regular coaching, then solving problems is part of the ongoing dialogue. In the course of regular guidance and direction, addressing one small problem after another is what ongoing continuous performance improvement looks like. Nine out of ten performance problems will be solved quickly and easily or will be avoided altogether when managers are talking with employees about the details of their work on a regular basis. This makes accountability an integral part of the performance management process.

In general performance problems fall into one or more of three categories: ability, skill, or will.

- When employees' problems relate to ability, they are probably not a good match with some or all of the job's tasks and responsibilities. If this is the case, the best option is to change the tasks and

responsibilities that are a poor match or give the employees work that is a better fit. Otherwise, the employees will have to be removed.
- If the problem is skills, an employee is missing knowledge, hasn't mastered techniques, or lacks necessary tools or resources. It is the manager's job to make sure that the employee gets what is needed to succeed. If the manager cannot offer what is needed, then the manager must either help that person limp along or else help that person move on to a new job.
- Motivation, the will to perform, is the toughest coaching problem to address. Every person is different, so what motivates each person will vary. In the case of persistent performance problems, the question is: "What demotivates a person?" Sometimes an employee has an internal issue. It could be a destructive personality trait or a physical or psychological pathology requiring the help of a trained therapist or doctor. Employees who are underperforming because of an internal issue must be referred to some type of personal employee service or to human resources so they can get professional help. A manager is not a doctor or a psychologist or a best friend. Personal issues can be sensitive and must be handled by someone who is equipped to deal with them. More often, though, an employee is demotivated at work because of external reasons. Perhaps there is something the employee wants and is not getting like better working conditions, a flexible schedule, or the right to choose his or her coworkers or tasks. If there is a need managers can address, they can provide the employee with more incentive to start working smarter, faster, and better.

If an employee fails to improve performance despite the manager's regular coaching and documentation, and even putting the employee on warning, the manager will have to take action. If the manager has monitored, measured, and documented an employee's performance every step of the way, then he or she will be in a much better position to make the right decision.

There are four reasons why employees who show no improvement must be terminated:

1. They are getting paid for providing little or no results.
2. They create problems that other employees will have to fix.
3. Employees who do not perform create morale problems with their fellow employees that can disrupt work on a larger scale and contribute to turnover. The highest performers are most susceptible to these morale problems, and the manager can least afford to lose them.
4. Low performance should not be an option, and the team must see evidence of decisive leadership in the treatment of uncorrectable low-performing employees. Team members must see that high performance is the only option. Managers cannot afford to have negative energy and unnecessary problems of a stubborn low performer dragging down the rest of the team.

How to Be a Coaching-Style Manager for High Performers

What about the high performers? Do you really need to spend 15 minutes every day or even every week with an employee when things are going very well? Perhaps you need to meet with that person only every other week. If you don't spend at least that much time with an employee, you won't know whether things are going well. All you know is that no problems have come up on your radar screen. It is worth spending 15 minutes verifying that things are indeed going as well as you think they are. You can always help make things go even better by offering positive feedback. Your input can provide the additional development needed for employees to be optimally engaged and satisfied.

True high performers are good precisely because they are always working systematically and consistently on trying to improve, almost always with the regular guidance and the direction of a manager acting as a coach, teacher, or mentor. Elite performers engage in regular, smart, purposeful work with regular scrutiny and course-correcting feedback from someone they respect and trust. That's why true elite performers always gravitate to strong, highly engaged leaders: They understand that their coach knows what they are doing and is in a position to help them do more, faster, and better while recognizing their achievements.

Managers must guard against spending too much time with low performers and not enough time with the high performers. The superstars who were fast learners, who learn what it takes to do their job, stay busy and solve their own problems as they come up. They may not interact much with their manager. Superstars must feel that they have a "mentor" or "coach" or "teacher" to help them learn and grow. If they do not get this type of support from their manager, they may look for a surrogate. The manager must be the first to provide this support. The following approach will help managers engage superstars:

- Prepare more, not less, for every one-on-one.

- Always check regularly to make sure that things are going as well as you think. Just like everybody else, superstars need to provide regular reports on their tasks, responsibilities, and projects. Regardless of their talents, you need to verify that the work is getting done.
- Pay close attention to how superstars challenge you in ways that you don't expect. Learn from the way they force you to stay on your toes and think on your feet.
- Brainstorm about recurring problems and innovative solutions.
- Learn from their front-line intelligence. What's really going on out there? Learn from their analysis.
- Help them pursue technical expertise, professional training, and specialized knowledge.
- Make sure they get their needs met and aren't looking for another job. Go out of your way to ask regularly, "What do you need from me?" Keep track of their great work and look for ways to provide them with special rewards.
- Challenge superstars to be peer leaders and to take ad hoc leadership opportunities like short-term projects and teams.
- Teach them tricks and shortcuts, warn them of pitfalls, and help them solve problems. Support them through bad days and counsel them through difficult judgment calls.
- Occasionally talk strategically about how superstars should navigate their careers within the organization. Discuss how work assignments have been going and what assignments should be sought next—new training opportunities, transfers to new work groups, or moves to new locations. You might recommend strategies for pursuing raises, promotions, or desired work conditions. The idea is to offer regular career advice from an insider's perspective so they don't have to get it from outsiders (like headhunters).
- Use your influence and authority within the organization to ensure that the most valuable players are getting the lion's share of resources to support and accelerate their career success. Talk regularly with your superstars to make certain that nothing has gone wrong or is going wrong in their work assignments. Steer them to the best training opportunities, the choice projects and assignments, and the most powerful decision makers. Fast-track them to win bonuses, raises, promotions, and desired work conditions.

The very best talent is worth a great deal to the organization. The only way to be fair, to keep them motivated, retain them, and develop them, is to invest substantially in recognizing and rewarding them.

Providing generous rewards and superior work conditions in order to reward and retain high performers is a workplace trend that is not going to reverse itself in the foreseeable future.

Our research confirms that providing differential recognition and rewards works only when managers do the hard work of shining that bright light of scrutiny on every employee. Managers need to start by shining the brightest light on the superstars—they deserve it. That's also how managers make it clear to everybody that the superstars are doing more, faster, and better with a constructive attitude, and they are being rewarded for it. They are examples for ambitious employees who aspire to be superstars as well.

This may sound reasonable in theory, but most managers believe that they have insufficient time, discretion, and resources to differentiate high performers. Rather than devoting the lion's share of their time and attention to superstars, managers are often thankful that they don't have to worry about the superstars' work, that they don't need hand-holding.

When a superstar knocks on the manager's door and says that he or she wants to work just four days a week on-site and from home on Thursdays, the manager might respond, "I can't let employees choose their own schedules. That would be granting special privileges to one employee. That wouldn't seem fair to others." On the other hand, the manager doesn't want to lose superstars or make them unhappy or dissatisfied with the way they are being managed. The manager may give in to the superstar's request. The classic mistake that many managers make in this situation is that they make a secret deal allowing the request but asking the superstar to not reveal the working arrangement. Inevitably the arrangement is revealed, and others request to make their own schedule.

Managers have, and must use, their discretion, ability, skill, and gumption to negotiate with each employee as if every reward and detriment were tied to measurable instances of employee performance.

All employees worth employing want to know what they need to do to improve and how they can be adequately rewarded. Managers need to help them by telling them exactly what they need to do to earn more. That means explaining on a regular basis: "OK. Here's the deal. For coming in to work on time, for not leaving early, and for getting a lot of work done very well without causing any problems, you get paid. And you get to keep working here!" Those are the fundamentals of the employment deal. Employees should understand that doing their jobs well, fast, and all day long is what they were hired to do. Beyond the basic requirements of the job, employees should know that if they need or want more salary or benefits, they have to earn those rewards through hard work.

How to Be a Coaching-Style Manager for Average Performers

What about those often-neglected "average" employees who make up the vast majority of the workforce? They are doing enough to escape intensive scrutiny and aggressive corrective coaching. Our research shows that coaching-style managers help one average employee after another practice and fine-tune their work behaviors, including becoming more detail-oriented, more aware of the pace of their productivity, more focused on the habits of continuous improvement, and more aware of the need for growth and development. It is in the vast middle-performance range where most of the work gets done and where coaching-style management will have its greatest impact.

Suggestions for handling common problems faced by the majority of employees follow.

What should managers do if they want to help an employee speed up? Faster is not always better. Sometimes it turns out that employees who work at a faster pace make a lot more errors than those working more slowly. Productivity and quality are in constant tension with each other. Some people work slowly because they are trying to be very careful and avoid errors. They are concentrating so hard on getting everything just right that they move deliberately at every point. That commitment to quality should be encouraged. The challenge is coaching the careful employee to maintain quality, but also work on speed. Managers need to acknowledge that it's a delicate balance. The good news is that, usually, an employee who is so committed to quality is likely to be an engaged learner and open to performance coaching.

At the other end of the spectrum, you may need an employee to slow down and pay more attention to quality. The first solution to consider when it comes to employees with high error rates is retraining. Employees often find themselves charged with tasks and responsibilities for which they've received little or no training. They haven't been given the information to master or the techniques to practice, sufficient to develop the basic knowledge and skill to do the work. If there is a high concentration of employees with high error rates, there is a good chance the training was insufficient. Retraining will improve just about anybody's performance, at least for a while, simply as a result of refreshing and refocusing and increasing awareness and mindfulness, not to mention some of those basic bits of knowledge and skill necessary to do the job. Plus, retraining sends a message that "doing it right" matters.

Baffling to some managers are employees who obviously know what they are doing and still make mistakes. They know the task well and have performed it many times. Often these are employees who are so confident in their competence that they move through the steps of each task almost automatically. In this case, scrutiny alone can have a huge impact on an employee's attention to detail: If I know someone is keeping a close eye on my performance, I am likely to keep a closer eye on it myself.

If scrutiny doesn't work, then metrics are needed to develop good course-correcting feedback to help the employee figure out how to make fewer errors. The answer is usually, "Slow down and think about what you are doing." The metrics should help you zero in on exactly where and when this particular employee needs to slow down and think, at least for now.

As you might have noticed, it's often the speed demons who make the most mistakes. This is especially problematic in positions where the basis for performance evaluation and rewards is disproportionately weighted to productivity measures rather than quality. Indeed, quality is usually harder to monitor and measure than productivity. Tracking quality requires regular auditing of work product, close attention to the details, and plenty of subjective judgment calls.

Quality assurance slows things down. Quality assurance requires a manager's constant guidance and direction. It strikes a balance that requires minimizing errors and maximizing speed.

Everybody gets sloppy once in a while, or slows down to a crawl. That's why managers need to keep people awake and mindful and focused on the details every step of the way—and moving swiftly. If managers want to slow people down and get them to think about what they are doing, it may be necessary to periodically tweak the process. They may alternate their focus on speed one week and on quality the following week.

Managers who coach help their employees improve and show them how to "go the extra mile." This can help them move to the top of the "average" category and come within striking distance of the "high performer" category. The manager can help his or her employees learn some additional ways they can add value. Some managers go as far as asking their direct reports to keep a running "extra mile" list. Together discussing what counts as "extra mile" work for each employee is how to keep that average employee moving in the right direction. When those average employees start going the extra mile on a regular basis, coaching-style managers provide recognition, reinforcement, and rewards. By making the opportunities to go the extra mile concrete, managers give a lot more people the chance to excel in ways they might not have thought of.

Conclusion

Employees—the best, the worst, and the average—usually perform at a higher level, grow and develop, and remain more engaged with coaching, direction and feedback, scrutiny, trouble-shooting, course-correction, scorekeeping, recognition, credit, and reward in proportion to their efforts and contributions. Some people need more attention than others. Talking to every person every day is not always possible. Managers need to choose their targets. But managers must not make the mistake of choosing the same targets over and over again. Managers must spread out their management time among all—low performers, high performers, and the average employee. Some employees may need more than others, but everybody needs leadership.

Chapter 24

Novel Ways to Win the Battle for Great Talent

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IT'S BEEN TWO DECADES SINCE MCKINSEY'S WAR FOR TALENT STUDY (1998)[1] HELPED TO elevate thinking in executive suites and boardrooms about the advantages of having better talent than the competition and what strategies could be deployed to attract, engage, and retain talent. A lot has changed since this study, but the "war" for talent hasn't faded as a top priority for leaders as changes to jobs, the composition of the workforce, and heightened competition elevate the importance of having great talent. In fact, research by PwC indicates that availability of key skills is a top 10 threat and ranked third overall by 77 percent of CEOs.[2]

Now that the attention of the C-suite has been captured, a new challenge awaits: How to win the war for talent in a hypercompetitive labor market with vastly different candidate expectations and a new arsenal of digital HR tools at our disposal. Do HR departments and talent acquisition groups need to evolve into digital saboteurs, deploying tactics often seen in Silicon Valley to poach talent? Is the art of recruiting an artifact of the pre-LinkedIn era? Should marketing take on a greater role in attracting candidates given the role of organizational brands in shaping employment brands? Has the volume of data created through online footprints or digital breadcrumbs made us better at selecting the right person for the job? Or is the war for talent officially over as some suggest[3] because "power" has shifted from employers to Internet-savvy candidates armed with reviews, salary data for negotiation, and detailed questions about an organization's unsightly, online reputational warts?

We believe that while the war is not lost, the battlefield has significantly changed via the social media revolution, rise of networking recruitment sites like LinkedIn and Glassdoor, and the influence of organizational brand and reputation on whom we want to work for. This chapter describes what organizations can do regardless of industry and size to win the battle to acquire great talent by fighting the war differently. Much of this will require HR organizations to build new capabilities and partner with other functions to leverage tools, methods, and best practices from disciplines in consumer marketing, data science, and industrial-organizational (I-O) psychology in new and different ways.

Better Talent Where It Matters Most

The mandate for talent management is to drive results by having better talent than your competition in the roles that matter most for value creation. Targeted efforts to increase the quality and size of the talent pool will create a more diverse and capable group of people from whom to select for the more critical roles in your organization. Sure, increasing the number of applicants per requisition, high engagement scores, and low turnover are great, but even top quartile performance on these measures will not create business results. Too many HR practitioners become enamored of these proxies for performance and lose sight of how talent creates competitive advantage. Michael Porter's seminal work on strategy suggests competitive advantage is fundamentally about superior value creation and resource utilization. If you have a real competitive advantage, it means that compared with rivals, you operate at a lower cost, command a premium price, or both. Further, the difficulty in replicating these sources of competitiveness can create resilience and represent a "moat" that protects from rivals.[4] Building a talent management system that delivers competitive advantage focuses on value creation at the intersection of talent and roles where it matters most to achieving the overall business strategy.

Consider for example, Herman Miller, a design company based in Holland, Michigan, best known for modern furniture and high-end office chairs. Herman Miller has established industry leadership through product aesthetics, premium materials, and intuitive user-driven design. Herman Miller's strategy places a premium on attracting and retaining the world's best design talent and leveraging deep capabilities in commercialization to execute design and increase speed to market. This business won't beat out Steelcase, a close rival, by having better talent in the finance function. Herman Miller's focus is on attracting the best design and product development talent relative to peers.

Another example comes from consumer packaged goods (CPG) companies like Unilever and P&G, both vying for marketing, innovation, and strategy talent at top-tier MBA programs. These hypercompetitive, razor-thin-margin businesses depend on winning market share by deeply understanding and anticipating unmet consumer needs, creating market excitement by launching refreshed and new products, and gaining optimal retail pricing and product positioning to build loyalty for their product portfolio over peers. All of this requires a keen eye toward attracting, retaining, and promoting the right marketing, innovation, and strategy talent.

A differentiated talent strategy is far from a new idea. The key to achieving business results through better talent is determining the leverage points in the organization—the roles where great talent really creates competitive advantage. Consider Vilfredo Pareto's 80/20 rule that suggests that a small number of people (20 percent) will generally create a disproportionate amount of the output (80 percent) of any group and Becker and colleagues' differentiated workforce.[5] Recent research by Craft and Leake (2002)[6] demonstrates evidence of this principle in management decision making and O'Boyle and Aguinis's (2012) meta-analytic review revealed that individual performance follows a Paretian pattern.[7]

To operationalize this concept, consider the roles in your organization that create the largest sources of advantage. Pulling from the playbook of workforce planners, these are your critical roles. Stryker, a Kalamazoo, Michigan, based diversified med-tech company with premium products understands where this advantage is derived: (1) through world-class engineering talent who create product innovations, and (2) sales representatives who are skillful at building and maintaining customer relationships and delivering on the value proposition associated with premium products and services.

The Role of Brand and Thinking Like a Marketer

In addition to understanding where talent will maximize results, winners in the new war for talent will need to think more like brand strategists and marketers. Savvy marketers are constantly seeking out new and better ways for their products and services to become relevant and compelling by learning more about consumer preferences and modifying their marketing mix (product, placement, price, promotion) to win loyal customers. They also are keenly aware of how their brand and reputation stacks up against their competitors and what strategies and messages are effective to unhitch consumers from competitors in favor of their products or services. HR organizations and talent acquisition should be doing the same when it comes to acquiring talent by becoming more nuanced and deliberate in understanding and targeting passive and active candidates.

Reputation and brand equity are paramount in the new war for talent as organizations with superior brand relevance and positive reputations will attract higher-quality talent pools. Candidates want to be part of the brands they love (Sovina and Collins, 2003).[8] Winners will be determined by how well the job seekers connect with the brand and an organization's reputation. Consider, for example, how an engineer feels about working for Chevron, an oil and gas company with a reputation for safety and innovation around new fuel sources versus BP which has had a string of safety incidents traced back to efficiency and profit motivations. To be clear, this is much broader than traditional HR concepts of the employment branding and the employee value proposition as evidenced in a study that revealed that 69 percent[9] would not take a job with a company with a bad public reputation, even if they were unemployed.

The boundaries between constructs such as organizational brand and employment brand are disappearing as reputation affects both customer attitudes and beliefs and job seekers' expectations about the employment experience. Digitally connected millennial job seekers become more skeptical of what employers espouse and rely more on their own personal experiences with the brand, online communities, business reviews, Glassdoor, and ubiquitous media coverage. Leading companies like the Mayo Clinic, the Four Seasons, and Patagonia appreciate this and have created talent systems that ensure that the experience of their employees or employee value proposition (EVP) reinforces the same attributes that loyal customers value in their products and experiences. As Bersin (2016)[10] suggests, traditional assumptions about how firms create shareholder value have been reversed. The business mantra "shareholders first" is now "taking care of employees first, who in turn take care of customers and deliver results to shareholders."

Effective talent acquisition teams focus on building the quality of their talent pools, not the size of the pool. They also understand the importance of ensuring that the employment brand is closely aligned with the organizational brand in terms of messaging and that it supports the rational and emotional aspects of the overall brand identity. Pick up their seasonal catalog or go into a Patagonia retail store, and you will quickly appreciate the emotional and rational positioning of the brand—what matters to the company and the type of customer it's appealing to. The first 20 pages of each high-end product catalog printed on 100 percent recycled paper has nothing to do with Patagonia products and everything to do with its mission, vision, values, and beliefs about its relationship with the environment. The employment brand creates the same influence and appeal for current and prospective employees who are drawn to an "uncorporate" employee experience that places mission, vision, and values over profit. This is the same company that donated all profits during Black Friday to the causes it supports. Figure 24.1 indicates areas for aligning consumer and employer reputations.

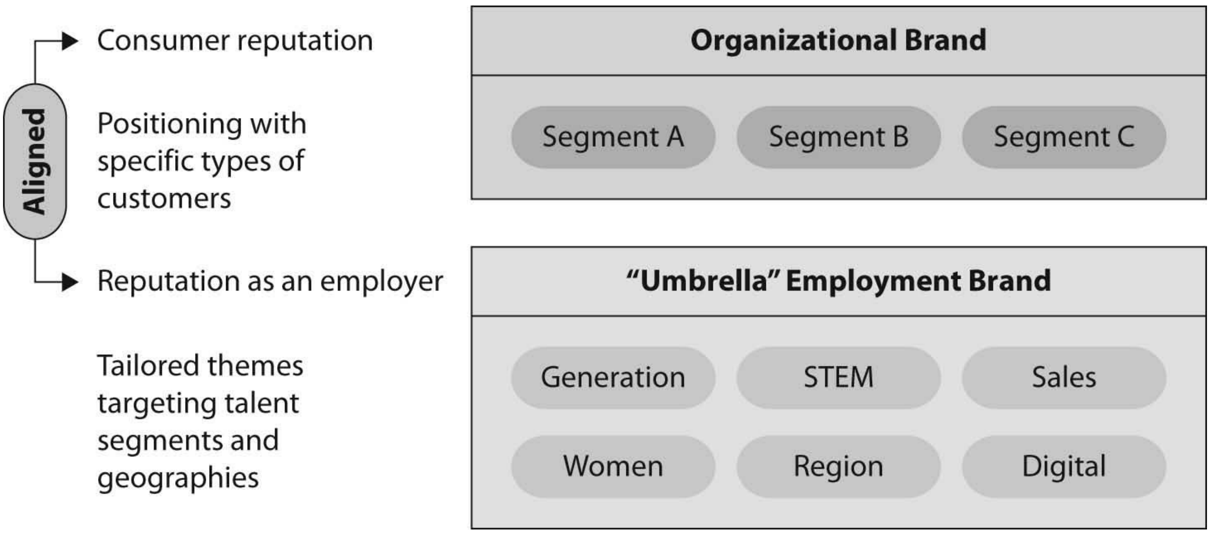

Figure 24.1 Areas for Aligning Consumer and Employer Reputations

Patagonia carefully manages its reputation and has an employment brand that attracts the type of talent that will thrive in its work environment and culture. However, the company recognizes that not everyone will work out or will be a good fit. One of the fundamental tenets of a strong employment brand is that it attracts the type of individuals who will likely succeed in the work environment, repels those who will not, and is closely aligned with the organizational brand identity. Because of the increasing amount of information that is available to applicants about potential employers and the sameness of platitudes like, "Best place to work," "Our people are great," or, "Winning culture," these themes tend to go unnoticed and are now considered table stakes by the best candidates because of their ubiquity.

A comprehensive research study by CEB,[11] found that employers pushing similar selling points end up being indistinguishable from each other. "Branding for appeal" or promoting the organization as a great place to work only marginally improves applicant quality from 24 percent to 28 percent. Further, channel outreach through social media sites like Facebook, Instagram, and Twitter only amplify the amount of unhelpful information to candidates, create information overload, and reinforce skepticism and a lack of confidence in the statements of these employers. However, "branding for influence" by guiding potential applicants to make better decisions about whether to apply can increase the percentage of high-quality applicants by 54 percent (from 28 percent of applicants being high quality to 43 percent being high quality).

Organizations that attract the best talent succeed by executing the employment brand around three key factors: distinctive, compelling, and substantiated. They create "magnetism" to attract the type of people they want and repel those who are not likely to be a good fit. Figure 24.2 depicts the three key factors creating ultimate "magnetism."

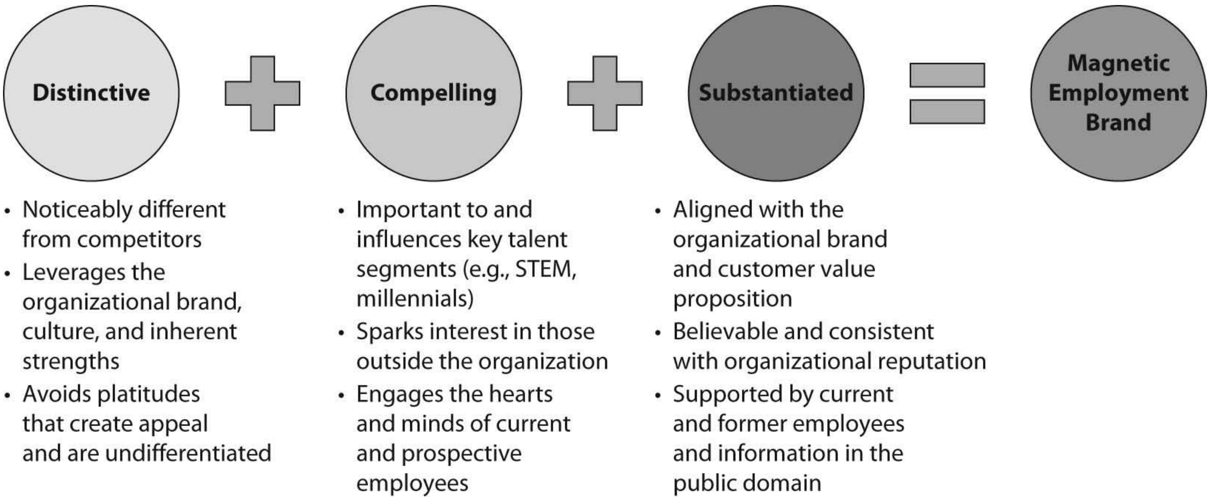

Figure 24.2 Three Factors that Drive a Magnetic Employee Brand

Just as marketing organizations segment their customers by personal values/personality traits, lifestyle characteristics, activities, purchase and consumption behaviors, and media preferences, talent acquisition teams should be thinking about the market for talent in a similar manner. Specifically, what values and personality traits tend to fit best with the organization culture? What previous work and life experiences best prepare someone for a successful career in their organization beyond degree and school? What other preferences from "follows" or "likes" could be harvested from someone's background that might predict a strong likelihood to fit within a culture?

Marketers use the term "persona," a summary of the psychographic profiles of customers from a particular customer segment. This concept can be incredibly powerful when it comes to developing a sourcing strategy and building talent pools. For example, a B2B (business to business) company determined that it could significantly improve the return on investment of its recruiting efforts for sales talent by focusing on three different personas and developing targeted sourcing strategies and messages for these groups. An example of one of the personas is provided in Figure 24.3.

Persona	Candidate Characteristics	Values and Aspirations	Affiliations
"I'm really good at selling and have a track record of influencing discerning buyers and senior leaders"	• 5–10 years experience in sales calling on senior leaders or business owners • Experience selling business services or big ticket purchases in industries with long sales cycles and sophisticated buyers • Subscribes to "eat what you kill" philosophy and willing to take on more risk for increased rewards	• Entrepreneurialism • Prominence and reputation • Affiliation and teaming • Wealth creation • Independence and freedom	• Company alumni groups • Sales industry groups • University alumni groups • Sports clubs (golf, running, football, etc.) • Community groups

Figure 24.3 How an Organization Persona Can Be Used to Develop a Sourcing Strategy

HR and talent acquisition pros should also be deploying similar tactics to marketing to optimize their talent acquisition strategy across different personas, much like optimizing a portfolio of brands based on customer preferences. Based on an analysis of salesperson demographics and predicted workforce needs resulting from retirement and turnover, as well as an understanding of the available talent in the market, this B2B company adopted a total portfolio approach. As described in Table 24.1, the company executed a sourcing strategy for each persona and established hiring targets for the talent acquisition team. It's important to note that this strategy was developed and executed for a single role in the organization, but this role was the most critical to drive growth and also had a large number of candidates. Many organizations have applied this approach more broadly to other roles, but tend to find diminishing returns applying this level of rigor when roles are not essential to the strategy. Again, this highlights the importance of a differentiated talent strategy that focuses on talent in roles where it matters most.

Talent Persona		Candidate Characteristics	Proposed Sourcing Strategy to Achieve Organic Growth	
Recent Graduate	*"I like to compete, have grit and I'm really good at influencing others"*	• First job out of college • Participated in teams, clubs, and fraternity/sorority • Seeking a job interacting with others	**Maintain intern/ extern talent pipeline**	—
Early Career	*"I'm looking for more autonomy, a chance to be an entrepreneur, and make more money at a company with a better reputation"*	• Less than 5 years of experience • Starting to get established in the sales profession • Disillusioned by the day-to-day work, reputation, and prospects of his or her company	**Increase focus, targeting candidates with experience in superior sales training companies**	↑
Midcareer (w/ Industry Experience)	*"I like this industry and my job, but I'm frustrated with the opportunities and the way we do things at my current employer"*	• 5–10 years experience as a successful salesperson • Knows the industry and selling process • Frustrated with growth prospects because of company size (too small or too big), the bureaucracy, and compensation model of his or her current employer	**Decrease emphasis due to labor shortage in the industry**	↓
Midcareer (Non-Traditional)	*"I'm really good at selling and have a track record of influencing discerning buyers and senior leaders"*	• 5–10 years experience in sales calling on senior leaders or business owners • Experience selling business services or big ticket purchases in industries with long sales cycles and sophisticated buyers • Subscribes to "eat what you kill" philosophy and willing to take on more risk for increased rewards	**Increase focus, targeting candidates in sales roles within relevant niches and superior sales training companies**	↑
Established Salespeople	*"I'm a market maker, but leave money on the table because of my current arrangement"*	• More than 10 years experience in the industry as a successful salesperson • Currently works for well-established industry competitor • Frustrated by the lack of access to resources, bureaucracy, or compensation model of his or her current employer	**Continue to drive to recruit experienced salespeople, particularly those with large books of business**	↑

Table 24.1 Alignment of Sourcing Strategies with Each Persona

Source: GE

Identifying talent segments and persona for critical roles creates a more strategic talent-sourcing model that can deliver better quality candidates. Research by Aberdeen,[12] for instance, suggests that best-in-class organizations are 42 percent more likely than all others to create and promote an employment brand that targets desired talent using methods like those described above. Further, these same organizations are 68 percent more likely to involve the marketing department in employment branding and advertising tactics to ensure that they can better connect with candidates.

Another smart move borrowed from marketing's playbook is to tailor the employment brand theme to specific candidate personas and roles. By tailoring the brand and associated messages, organizations can more deeply engage candidates' hearts and minds about how the employee experience will unfold.

Part of GE's growth strategy is to leverage digital and tech capabilities throughout its core business. The company realized that it would be challenged to compete with the likes of Google, Netflix, Facebook, and Apple for STEM (science, technology, engineering, mathematics) talent because of its reputation as a traditional manufacturer, especially with millennials. In its recruitment advertising campaign, "What's the Matter with Owen?" GE's agency, BBDO, hit a home run with this targeted campaign that leveraged humor, an essential tactic to engage millennials, as Owen struggles to share his excitement with family and friends about his new job as a developer for GE.

Goldman Sachs has also dabbled with a hypertargeted talent sourcing strategy through an advertising campaign on Spotify, the music-streaming app, to catch the attention of prospective job applicants. The investment bank, which also uses Snapchat stories to further its appeal to millennials and tackle the negative stereotypes of investment banks, uses Spotify to link back to the firm's careers quiz, which helps candidates explore which divisions are best-suited to them.

Most HR professionals still indicate that employee referrals are the best resource for finding candidates.[13] Considering that LinkedIn and other recruitment-related networking sites continue to grow at significant rates, this talent-sourcing strategy—looking for referral networks in social media connections—can provide incredible value. As new technologies come to the market that directly connect to LinkedIn and can store candidates' information, many organizations will deploy this strategy to harvest the best candidates more efficiently than ever before. In this vein, some are leveraging the networks of current employees as a sourcing channel for the most critical talent. Using network analyses on data provisioned from LinkedIn, talent acquisition teams can target individuals with connections to current employees that fit the desired persona and create a referral program "on steroids."

For example, the B2B company mentioned earlier has deployed an app that allows the talent acquisition team to access the connection data from the LinkedIn profiles of its sales reps. Using network analytics to visualize the connections that sales reps have with individuals from competitors and other industries resulted in warm leads that recruiters could pursue and that benefited employees through their referral bonus program. Figure 24.4 depicts this process.

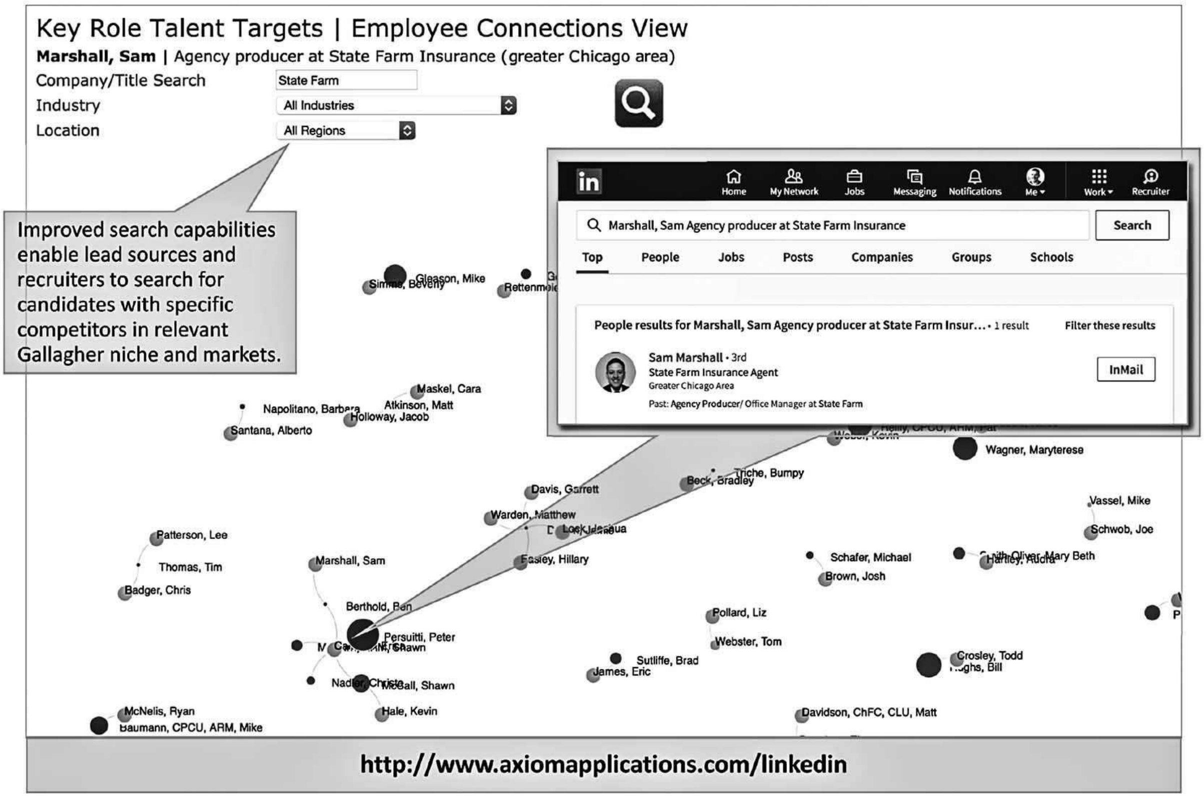

Figure 24.4 Key Role Talent Targets and Employee Connections

The Needle in the Haystack Problem

Even with a strong brand, the work hasn't gotten any easier as recruiters are overwhelmed by increases in applicant numbers because of the low transaction costs associated with submitting a job application through LinkedIn and dozens of other media channels. Frustrating to many talent acquisition leaders, less than one-third of applicants are considered high quality, and no differences were detected in quality between those organizations with well-known brands.[14] This points to the importance of robust selection tools and processes with clear measurement criteria that accurately predict future job performance, all while creating a favorable candidate experience. Organizations that are less equipped to reliably predict job performance in candidates will inadvertently undermine their investments to build their talent pools. In other words, selection systems that are less accurate (i.e., low validity) will tend to result in more false positives (i.e., assuming candidates are good fits when they are not) and increasingly make this error as their talent pool increases because there are proportionately fewer truly great candidates.

Human performance can be thought of as the product of ability (talent) and motivation (Porter and Lawler, 1968).[15] Thus, talent can be defined as performance minus effort such that a more talented person will perform better than an equally motivated but less talented peer because of their innate ability or potential.[16] We also know that culture and environment fit matters as even an extremely talented individual will not reach full potential in an environment that is a poor fit.[17] Examples from professional sports are abundant: a highly paid superstar cannot translate success from one team to the next because of different personalities, team dynamics, and culture in the new organization. The goal, then, is to not just source high-quality candidates but to select the best person for the job based on talent and fit with the organization.

With this goal in mind, there is a whole new arsenal of tools as hundreds of programmers have entered the space of traditional I/O psychologist-led assessment firms offering technologies to screen, interview, and profile candidates online.[18] As Chamorro-Premuzic and colleagues. (2016) summarize, these new ventures are predominantly based on four methodologies that have the potential to disrupt and perhaps even advance the talent identification industry. They are (1) digital interviewing and voice profiling, (2) social media analytics and web scraping, (3) internal big data and talent analytics, and (4) gamification.

While these new digital tools can be incredibly powerful in terms of selecting talent and creating an engaging experience for candidates who have become accustomed to interacting with digital content on their phones, they are not without challenges. Most of these challenges are the result of the narrow focus of these tools on predicting or classifying the candidates as a good or poor fit, rather than explaining their potential. Data scientists argue that insofar as the machine or algorithm has predictive power on the outcome variable (e.g., fit for the job), what does it really matter that credit history, Facebook likes, and distance from one's office are used as the predictor variables. Discomforting to psychologists is that this approach often disregards theories of test construction and measurement as well as the competencies required for the job. Furthermore, they tend to overlook how various sources of data relate theoretically and statistically to the constructs (competencies) being assessed. As Roth and colleagues (2016) point out, understanding behavior is equally important as simply finding relationships that predict behavior. In the next couple of years, much will be written about these new methodologies as the shift to digital HR accelerates. What's important to consider here is that these tools offer some promise to more efficiently and effectively identify high-quality candidates. As talent acquisition teams experience increasingly larger and less-qualified talent pools, these tools should be used cautiously when a selection system is being designed.

There are several principles that will help in this endeavor.

The first is knowing what to assess. In other words, identifying the knowledge, skills, and abilities that predict future job performance. While frameworks have evolved significantly[19] to assist in this effort, many organizations are still challenged to utilize competencies as part of the selection system. The problem often stems from poorly designed competency models that comingle values and metastatements with the goal of consistency across the organization or overly complex technical competency libraries that default to a skills inventory in the selection process. For roles that are most critical to competitive advantage, vendors like Hogan Assessments, which has developed the job evaluation tool (JET), and IBM/Kenexa offer solutions that are efficient, accurate, and cost-effective for identifying competencies that predict job success. Despite the availability of these solutions, surprisingly many HR teams still invest in custom competency frameworks to ensure that it "sounds like us" while knowingly sacrificing integrity to predict job performance.

The next key principles are to design a process that is rigorous, but that carefully balances the candidates' experiences, and to select the right tools. This is where the targeted candidate persona becomes important and new digital tools can be leveraged most effectively. Goldman Sachs, in an effort to attract more millennials from more diverse backgrounds who may have been put off by the firm's elitist reputation, announced that it will no longer conduct in-person first-round interviews for undergraduates on college campuses. Instead, applicants will interview via a prerecorded video platform called HireVue and use new tools, including an electronic screening tool for résumés, and change the protocol on in-person follow-up interviews to a more structured approach for consistency.[20]

In 2006, HireVue conducted 2.5 million interviews, up from 13,000 five years prior, with nearly 90 percent of those conducted "on demand" with nobody live at the other end. For firms like Deloitte, Hilton, Under Armor, and Goldman Sachs that receive far too many applicants to thoroughly process, this solution is mostly an efficiency and cost play to streamline the overall recruitment process, freeing up time for business leaders and HR to conduct interviews with the best candidates. Because firms like JP Morgan Chase and Goldman Sachs are targeting young talent without the traditional experience of those typically found on Wall Street, leveraging a video-based interview platform is a smart tactic.

Google, which has a reputation for being a highly selective and difficult place to land a position, has done an exceptional job at balancing the rigor of its process with candidate experience in recent years. In 2015, 80 percent of people who had been interviewed and rejected report that they would recommend that a friend apply to Google.[21] Currently Google receives over 2 million job applications a year, and each is analyzed systematically according to Sunil Chandra, Google's vice president of global staffing.[22] Google approaches recruiting as part art and part science, where candidate experience is just as important as rigor. Google recognizes that the experiences of the over 2 million applicants create a strong impression on its brand.

There are important lessons to be learned from Google's success. Using data and analytics they have been able to determine that the optimal outcomes are the result of four or five interviews, rather than the ten or twelve interviews they did in the past. Yes, they use sophisticated tools to narrow the talent pool of candidates, but they still rely heavily on classic approaches such as the structured behavioral and situational interview to assess competencies. The goal is to predict how candidates will perform once they join the team by assessing aspects of cognitive ability, conscientiousness, and leadership through consistent and generic interview questions that solicit rich data and examples from candidates that can be reliably compared to one another. As Laszlo Bock describes, Google uses generic questions but is searching for brilliant answers.[23]

Structured interviews like those used at Google are widely accepted as one of the better methods to predict job performance, but research suggests that around 75 percent of the variance in job performance cannot be predicted through an interview. Ensuring that interviewers have the requisite interviewing skills, follow the process, and dedicate sufficient time is a constant challenge for organizations as hiring managers and line leaders tend to view this as HR's responsibility. Recognizing these realities, organizations should complement interviews with methods that are useful in predicting future job performance, minimize the burden on applicants, and improve the experience.

Efficiently gathering and analyzing background or bio data from candidate résumés, LinkedIn or other social media platforms using tools that scan/scrape, structure, and analyze this content using predictive algorithms is one way organizations can do this with minimal demands on candidate, HR, and hiring managers.

Validated personality assessments are another essential tool that helps organizations improve the success rates of hiring, especially as numerous studies have demonstrated that interviews are fraught with bias and are ineffective for selecting high performers.[24] Specifically, we first meet someone, we make an initial judgment, and a primacy effect takes over—we spend the following four minutes confirming our initial impressions.[25] Skilled interviewers can suppress some of these tendencies, but expecting most interviewers to suppress these biases is wishful thinking. Personality assessments, especially when combined with behavioral interviews in a selection system, provide an objective means to assess personality characteristics, motives, values, and stress behaviors and how those relate to competencies.

Despite advances in interviewing and testing, nothing predicts future performance better than past performance or a work sample. Corporate tryouts and simulations are beginning to be more popular as organizations that rely heavily on talent for their competitive advantage recognize that they need more certainty in the selection process by seeing how candidates perform on the job. Airlines have been using simulations for over a decade to select pilots. As virtual reality technology becomes better and cheaper, there is no doubt that we will start seeing more simulations in place of analog situational judgment tests. Like simulations, corporate tryouts entail giving candidates a sample piece of work like that which they would do on the job, and assessing their performance at it. While even this method can't predict performance perfectly, since other skills like collaboration and learning can't be assessed, it offers appeal in both sourcing and selecting talent. Publicly posted competitions or challenges like the complex mathematical question Google posted on a billboard on Highway 101 and hackathons hosted on platforms such as Kaggle will inevitably be followed by other creative approaches.

Gamification is another tool designed to create a fun and engaging experience for candidates where participants solve puzzles or complete challenges to earn points and badges. While the jury is still out on the accuracy of these tests, they are beginning to take hold as some larger firms rely on gamified assessments to evaluate potential candidates. Unilever, the British-Dutch company whose products range from Dove soap to Knorr soup, received 250,000 applications from graduates globally last year through a mobile gaming app to recruit staff, which the company claimed sped up recruitment, lowered costs, and promoted diversity.[26]

In Closing

Perhaps the greatest change and challenge many employers face is the loss of control that they once had in managing their reputation. Gone is the time when recruiting pros could rely on carefully crafted pitches to candidates and website "career pages" with beautiful, smiling, diverse employees engaged in seemingly creative work to hook the best talent. That thin veneer has faded. After years of consumption in a digitally connected world, we've become skeptics—of brands, institutions, and employers—as reviews of restaurants, products, movies, teachers, and schools have become ingrained in everyday interactions with the world around us. Research suggests that nearly two-thirds of candidates are more skeptical of what employers say about themselves than they were three years ago.[27] By all accounts control is gone, and it's not coming back.

But we still can influence candidate impressions through the organizational brand, the messages we project into the labor market, and how we design the candidate and employee experience. Employment branding campaigns that leverage a company's reputation and reinforce what type of people *will* and will *not* thrive are essential. Leveraging employee networks and social media are now table stakes to compete for top talent. Attracting superior talent will only be half the battle, as talent acquisition groups deal with a glut of applicants because of the low transaction costs associated with submitting a job application. Designing a fun and efficient selection process that is also effective at selecting the talent with the best fit for the role and culture will continue to be a different balance made easier by new digital technologies. In short, the war for talent will only become fiercer. The winners will be those with the right tools in their arsenals and the capability to use them effectively.

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Chapter 25

Leading Practices in Building a Successful Approach to Talent Acquisition

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WHAT SEPARATES THE LEADING ORGANIZATIONS FROM THE OTHERS IN TERMS OF talent acquisition is their understanding that the competition for talent is continuous and that every open position within their organization is an opportunity to upgrade their talent and enhance their bottom line. Best-in-class organizations recognize the need to continually invest in innovative talent acquisition approaches and practices to ensure that their organizations will be effective in recruiting great talent to join them.

Unfortunately, there are no organizations that have mastered hiring great talent. Every organization from Google, to Microsoft, to the local corner store is challenged in attracting, recruiting, and hiring the right talent across their organization. Great talent will always be in demand, and the competition for talent continues to be immense. Organizations with best-in-class talent acquisition approaches and leading practices will always have a better opportunity to beat out their competition in hiring great talent.

To Be More Successful, Your Approach to Talent Acquisition Must Change

Organizations that have been the most successful in their talent acquisition practices continually think outside the box in terms of their approach. They aren't afraid of developing and trying new practices. They recognize that they need to differentiate their approach to attracting talent rather than doing the same as what their competition for talent is doing. Successful organizations have developed a flexible and scalable approach to talent acquisition identifying that there will be a constant fluctuation in hiring across their organization for the different skill sets required for the business to be successful. These organizations have focused their approach to talent acquisition on being planned and proactive. They do a great job of understanding what talent their organizations will require in both the short and long term.

The role and expectations of talent acquisition continue to evolve, but the top challenges of every talent acquisition function remain the same:

1. Finding great candidates.
2. Filling positions quickly.
3. Hiring managers.
4. Creating a positive candidate experience and engagement.

It All Starts with a Plan: The Talent Acquisition Strategy

Unfortunately, most organizations don't have a talent acquisition plan in place. It's tough to meet the growing expectations of the function when you don't have the plan, the required resources, or the needed budget to be successful. Organizations without a plan will always be reactive in their approach to hiring talent.

Organizations that are considered best-in-class in terms of their approach to talent acquisition and in developing leading practices to recruit talent have developed a plan and strategy. Their strategy is realistic, achievable, and simple. They do not have too many stretch goals in their approach. They understand where their talent acquisition function and practices are today—what aspects of talent acquisition they excel at, what they are most successful with, what their biggest talent acquisition gaps and challenges are, and the readiness level of the organization to address these gaps and challenges. They focus on what is most important for their business and organization.

A successful talent acquisition strategy needs to be derived from the organization's business plan, strategies, and goals. There is no point in developing a plan for talent acquisition for your organization if it does not align directly to the business plan. The business plan should then drive the workforce planning and overall talent strategy and plan for your organization. It is only after you understand the business plan's impact on talent requirements that you can effectively develop your plan for talent acquisition.

Think of an organizational talent acquisition strategy as a framework or model—a blueprint to drive desired outcomes. A great place to start in creating your organization's strategy is to define the desired outputs of talent acquisition. These outputs should be closely linked to your organization's unique mission, vision, values, and goals.

Your organization's desired talent acquisition outcomes will touch on some common themes:

- Better-fit hires who are more productive and are engaged to stay on the job longer.
- Strong hiring manager engagement.
- Positive candidate experience promoting the organizational brand in the market.
- Ability to meet the peak demands of talent acquisition or reduce costs and overhead during slower periods of hiring; being able to scale up and scale down your organization's recruitment efforts effectively and efficiently.
- Key talent acquisition measures focused on hiring impact and outcomes.

After you have successfully outlined your organization's desired talent acquisition outcomes, start outlining the elements and drivers of these outcomes. Some examples of common elements and drivers within a talent acquisition strategy are shown in Table 25.1.

Talent Acquisition Model and Structure	Talent Acquisition Process	Talent Acquisition Governance	Talent Acquisition Practices
The resources, skills, competencies, and support required to deliver on recruitment activities.	The end-to-end process used to deliver recruitment.	The foundation that effectively supports the enablement of recruitment delivery and organizational engagement.	The methods by which recruitment value is elevated.
• Recruitment talent capabilities • Recruitment leadership • Structure and roles • Function capacity, adaptability, and agility • Recruiter skills and competencies • Business engagement/ participation	• Role intake discussion • Talent sourcing • Assessment tools • Interviewing and selection • New hire offer experience and package • Onboarding	• Vision, focus and strategy • Communication protocols • Policies/guidelines • Service level agreements • Training programs • Goals, metrics, and reporting • Budget	• Expectations and relationship management with the business • Candidate relationship management • Workforce planning • Proactive program management
Talent Acquisition Programs	**Employer Brand**	**Internal Talent Mobility**	**Talent Acquisition Technology**
Value-added programs that augment the foundational recruitment delivery model.	Value proposition as an employer, establishing a brand and culture to share with external channels and the talent market.	Programs that support employee movement and enable your talent to manage their careers.	Tools used to enable, track and measure recruitment activities and engage candidates.
• Sourcing channel optimization • Employee referral program (ERP) • Alumni • Campus/graduate recruitment • Vendor management and outsourcing • Talent pipelining/talent communities • Talent intake strategy	• Employee value proposition (EVP) • Social media branding • Talent attraction branding • Employee participation • Vendor participation • Reputation management and candidate experience	• Talent management strategy and practices • Succession and talent planning • Internal recruitment process • Mobility tools • Internal candidate experience • Employee mobility/career pathing	• ATS—applicant tracking system • CRM—candidate relationship management • Social media platforms • Career site—external and internal • Mobile • Other technologies, apps and tools

Table 25.1 Elements to a Talent Acquisition Strategy

One of the biggest challenges HR and talent leaders have is the unrealistic expectations around talent acquisition programs with internal clients. It is important to develop the talent acquisition strategy directly with business leadership to ensure that expectations of the function are aligned and realistic based on the investment. If the mission is to build and develop best-in-class talent acquisition practices, all the organizational stakeholders must be aligned on the time, investment, and accountabilities that will be required for the program to be successful.

Talent acquisition or HR should not be creating an organization's recruiting strategy in isolation. Best-in-class organizations get their business leaders actively involved in the creation of their talent acquisition strategy. The strategy should be presented and approved in the same fashion as any other critical organizational strategy—the sales and marketing plan, the financial plan, or the overall talent or human resources strategy. Successful organizations form a talent acquisition steering committee or advisory board consisting of the talent acquisition leader, the HR leader, and key stakeholders from across the organization who meet on a regular basis to review the performance and goals of the talent acquisition practices and make required changes to the strategy, investment, and accountabilities.

Simplify Your Workforce Planning

Understanding the upcoming and future resourcing and hiring needs of the organization is an essential practice for an effective talent acquisition function. Unfortunately, many talent acquisition functions are not as adaptable or as flexible as a team to meet the demand fluctuations of the organization during high growth or diminishing periods of hiring demand. Successful talent acquisition functions do a better job of resourcing the function appropriately to the change in hiring demand as they are proactively focused on future needs for their organizations.

The true effectiveness and benefits in improving sourcing better talent comes from two main areas of focus: being timely and proactive. Candidate sourcing adds candidate pipeline capability that enables a talent acquisition team to provide market intelligence and qualified talent as soon as the need arises. This added value to the organization helps to build trust and relationships with hiring managers and leaders, while promoting the talent acquisition team as responsive, informed, and quality-orientated talent advisors.

Here are a few simple techniques used by leading organizations to gather workforce planning data:

- *Historical hiring data.* These should identify past hiring trends including open roles that typically make up the bulk or volume of hiring needs, roles that typically recur and can be anticipated to recur in the future, and roles by job function with common skills and experience requirements.
- *Budgeted headcount projections.* The talent acquisition team must be encouraged to continue to build and maintain strong relationships with all business leaders to understand their planned headcount growth throughout the fiscal year.
- *New business projects and initiatives.* The talent acquisition team must be aware of proposed new business projects and initiatives and the specific anticipated impacts on hiring over the short, medium, and long terms.
- *External candidate market reference.* The talent acquisition team must understand the current candidate market conditions based on hiring experience and market intelligence (i.e., tough-to-fill roles, tough-to-find skill sets, high market demand roles). This information should be shared continuously with the business to establish expectations on the impact of new business projects and initiatives and the anticipated impacts on recruitment.

The keys to simple and effective workforce planning is the talent acquisition team's ability to build close relationships with the leadership within the organization and to always be aware of the initiatives impacting future hiring needs.

A Shift to a More Focused Approach to Talent Acquisition

A number of best-in-class organizations have recognized that they can't successfully recruit talent across their entire organization. For some, it is because of limitations on their talent acquisition budget and resources. For others, it is recognizing that instead of spreading their focus and talent acquisition resources too thin, they have prioritized and concentrated their focus for talent acquisition on the key areas within their businesses that will have the greatest impact for their organization. This is a change in focus from the common talent acquisition model which traditionally has had accountabilities for recruiting and hiring talent across an organization.

While the organizations that have concentrated their talent acquisition efforts on their core business priorities, this does not mean that the other areas of the organization aren't supported at all. Rather the support they receive for hiring is often from an outsourced solution or a self-serve talent acquisition model that provides foundational recruiting support for leaders through online tools and programs without a dedicated talent acquisition resource.

Hire and Develop Best-in-Class Recruiters

The performance of your recruiters is the number one factor in the success of a talent acquisition function. It isn't your technology, it's not the tools, and it's not your employer branding or culture—it all starts with having great recruiters. If talent drives success within an organization, then talented recruiters drive a successful talent acquisition function. It isn't a coincidence that organizations with best-in-class talent acquisition functions have a team of best-in-class recruiters.

The profile and expectations of the recruiter role has increased over the past few years. The enhanced expectations of an organization on its recruiters show the increased importance of the talent acquisition function. The challenge now is ensuring that your recruiters have the knowledge, skills, competencies, and capabilities to be considered a best-in-class recruiter.

One trend gaining popularity within a number of organizations with best-in-class talent acquisition functions is hiring experienced sales and marketing professionals and training them to be recruiters. These organizations have recognized the alignment between the traits and behaviors of a sales and marketing professional and the current role of the recruiter.

What makes a best-in-class recruiter in today's market? Great recruiters are passionate about their role, are authentic, and show a genuine pride in their organization. They need to understand their organization, industry, and the labor market. They need to coach, influence, and build relationships with both business leaders and candidates. They need to research, network, market, and sell. Of course, all these skills mean nothing if they can't close the deal with candidates.

Today's recruiters need to be true partners to the business and have the knowledge, skills, and competencies shown in Table 25.2 to be successful.

Knowledge	Skills	Competencies
Organizational specifics—news, leaders, trends, outlook, etc.	Intake and understanding of business requirements	Relationship building and coaching
Candidate skill sets, industry insights, and job function expertise	Consultative and business partner approach	Candidate engagement, assessment, and insights
The employee value proposition (EVP)—translated for candidates	Talent research and sourcing—a true talent hunter	A will to win
Current and future labor market trends and conditions	Leveraging technology and social media	Influence, negotiate, and close
General business acumen	Sales, marketing, and customer service focus	Multitasking
Organizational and recruitment practices	Communication and follow-up with clients and candidates	Compliance

Table 25.2 The New Recruiter Profile

Never underestimate the importance of having great recruiters in your organization. A great employer brand in the market is nice, but you need a great recruiter to enable your organization to take full advantage of your brand with great talent in the market. All the leading recruitment and talent acquisition programs, technologies, tools, and practices are meaningless without a great recruiter who enables these platforms to succeed.

Pay Your Recruiters More Like Your Salespeople

As the profile of the recruiter continues to transform to more of a sales and marketing professional, it makes sense to revisit how recruiters are compensated within your organization. One of the leading practices in the market today is building more variable pay incentives into the overall compensation of a recruiter. Best-in-class organizations understand that the recruiter role is critical to the success of their business and are willing to invest more into a focused pay-for-performance model.

Best-in-class organizations have designed and rolled out a significant variable pay component for the recruiter role based on specific performance milestones and achievements. These performance milestones are often based on recruitment outcomes (quality of hire and recruitment service delivery excellence) and less based on the traditional recruitment process focused on metrics (time to fill, interview to hire ratio). Often there are no ceilings put on the variable pay component so there is an opportunity for great high-impact recruiters to make significant additional earnings based on their successful performance. Organizations have designed the compensation model to reflect the need for these recruiters to be fully engaged to do the best job possible in sourcing, engaging, and hiring great talent for their organization. The results continue to provide a positive return on their investment with recruiters and organizations benefiting in this win-win solution.

These organizations have no problem attracting the top recruiters in the market to join them and use the different compensation plan as the carrot. Great recruiters are confident in their ability to be successful and embrace this form of compensation. Great recruiters share many of the same personal attributes and behaviors as great salespeople so why not offer them the opportunity to align their earnings more closely to their success and outcomes?

Building a Stronger Sourcing Culture Within Your Organization

Organizations with best-in-class talent acquisition practices have embraced a more aggressive candidate sourcing model. They recognize that simply waiting for talent to apply for their open roles is a failed approach. Gone are the days when a "post and pray" approach to candidate sourcing is considered effective. Unfortunately, most organizations continue to rely heavily on posting their open positions and praying that a great candidate will stumble across their posting and take the time to apply for their job through their corporate applicant tracking system.

The best-in-class talent acquisition functions take a more direct and aggressive approach to sourcing candidates to not only their current open positions but pipelining candidates proactively for future opportunities. These organizations recognize that trying to source talent everywhere is less effective than focusing on a select few sourcing channels for great candidates. They measure and understand where their great candidates come from and continue to invest in the sourcing channels that work the best for them. They also have built a hunt for talent approach and process to talent acquisition where they are in better control of their search for talent. The traditional and advanced approaches to the "hunt for talent" are shown in Table 25.3.

Advanced—"Hunt for Talent" Approach	Traditional—"Post and Pray" Approach
1. Intake and understand the role	1. Post the position
2. Market research and talent mapping	2. Review and screen résumés
3. Engage candidates	3. Candidate phone screen
4. Interview, assess, and sell	4. Interview and assess
5. Close the candidates	5. Candidate offer

Table 25.3 The "Hunt for Talent" Approach vs. "Post and Pray" Approach

Some other leading practices from best-in-class talent acquisition functions include:

- Integrating talent researcher and candidate sourcer roles.
- Leveraging your organization's top talent and new talent for referrals.
- Leveraging corporate alumni programs for referrals and boomerang talent.
- Building proactive pipelines of talent for key roles.
- Effectively using social recruitment and candidate engagement.
- Employer branding and authenticity.

Integrating Talent Researcher and Candidate Sourcer Roles into Talent Acquisition

Many talent acquisition functions today continue to use the traditional function model that includes end-to-end recruiters, recruitment coordinators, and administrator roles. The best-in-class talent acquisition functions have transformed the structure and model. They utilize more specialized talent acquisition roles including name generators, talent researchers, sourcers, employer brand specialists, talent acquisition relationship leaders, talent acquisition business partners, employee experience specialists, and social media specialists.

With the best-in-class talent acquisition functions integrating more of a candidate research and sourcing approach into their model and practices, the two roles that are most critical to the success of the function are the talent researcher and candidate sourcer. These roles are tasked with researching, mapping the market, and sourcing quality candidates directly for both open positions across an organization and proactive candidate pipelines using a variety of research and sourcing tools and techniques. The effectiveness of the research and sourcing roles within the talent acquisition function will only be as good as the quality and experience level of the researchers and sourcers. Both these roles have a unique profile and background. Simply trying to convert a traditional end-to-end recruiter into either a talent researcher or candidate sourcer role often fails.

Leveraging Your Organization's Top Talent and New Talent for Referrals

An effective employee referral program can be the most efficient and lucrative talent sourcing pipeline for an organization. A strong employee referral program will typically be found within organizations with best-in-class talent acquisition functions.

Unfortunately, more employee referral programs within organizations fail than are successful. Most organizations spend a lot of time and money on launching their programs with great pomp and ceremony only to have the marketing of the program dwindle and fade after the first few weeks, and the program quickly becomes forgotten by their employees.

To enhance an employee referral program, the best-in-class talent acquisition functions acknowledge two key principles:

1. Great talent will refer other great talent.
2. New hires will provide their new organization with access to a great talent pool of candidates from their previous organization.

Talent acquisition functions need to increase focus on these two principles. They need to become more aggressive with their employee referral programs which will lead directly to sourcing better talent within the market.

Great talent will refer other great talent. Recruiters should be meeting with the great talent from their organization on a regular basis, not only to educate and encourage them to be recruitment champions and brand ambassadors for their organization within the talent market but to sit down, review, and map out their talent networks of friends, acquaintances, former colleagues, and even family. Great talent will have access to talent pools they are not even aware of, and a great recruiter will be able to help them to uncover and tap deeper into their networks.

New hires are also a great source of great talent for organizations. The talent insights and information they can provide include the details of top talent from their previous employer as well as access to a new network of potential referrals. New hires should already have a strong relationship with the recruiter who helped nurture them throughout the hiring process. There is always a bond new hires have with the recruiters who helped to hire them. A great recruiter will sit down with new hires within their first few weeks in their new role to not only find out how they are doing but to also solicit talent insights and referrals.

Following are several leading practices from best-in-class talent acquisition functions to leverage your organization's employee referral program into an even better platform for sourcing talent.

Reinforce the Employee's Role in Building Talent Within the Organization

- Empower employees to play an active role in building a quality team to work with.
- Change the perception of who benefits from the referral program—it isn't just the employees but the organization as a whole.
- Promote a "becoming a talent scout" or being a "talent ambassador" campaign among your employees.

- A successful employee referral program will play a critical part in helping to transform your organization into a strong talent-centric culture and raise the bar in hiring talent.

Continue to Shuffle/Change/Refresh All Employee Referral Program Advertising and Marketing Materials

- Employee referral programs often fail within three months of launching because of poor communication and planning.
- Constantly refresh the employee referral program messaging with an ongoing communication plan throughout the year.
- Placement possibilities: centerpieces on cafeteria tables, tray liners, employee entrance handouts, televisions, posters, monthly hot jobs e-mail alerts, employee newsletters/publications, team meetings, management briefings, new hire orientation sessions.
- Utilize technology tools and apps to broadcast open opportunities and employer branding messages via your employees' social media platforms.

Proactive Referral Techniques to Be Used by Talent Acquisition Team Members

- Proactively seek out top performers in targeted jobs within your organization and ask directly for referrals from their networks.
- All new hires should be asked for referrals of talent from their former organizations.
- Hiring managers should be asked for referrals of talent within their networks.

Educate and Train Employees on How to Talk to Great Talent About Opportunities and the Value Proposition of Working at Your Organization

- Help employees understand what questions they should ask, what tools and approaches they can use to identify the best talent they meet in their daily interactions.
- Teach employees where to look for and how to identify potential candidates for referrals.
- Educate employees on selling your organization's value proposition to potential candidates.

Employee Referral Reward

- Vary the rewards and change them periodically, dependent upon open position types.
- Provide non-cash rewards to encourage employee participation.
- Use a sliding scale mega reward—that is, 10 successful referrals get a bonus.

Give Referrals High Priority Within Talent Acquisition

- Timely follow-up with referred candidates is critical to the success of the program by flagging referrals for immediate communication by talent acquisition.
- Referrer follow-up/communication is also critical.

Leveraging Corporate Alumni Programs for Referrals and Boomerang (Returning) Talent

Alumni programs have been in existence for decades. Higher-educational organizations started this trend, first recognizing the value of building a community of supporters, contributors, and donors to help propel the organization's goals and objectives forward. Next came corporate organizations taking notice of the academic model to create a unique differentiator for their market position and brand. These programs are rooted in the principle that people by nature want to belong, be a part of something bigger than themselves, and that a community of people can achieve greater heights and results by working together. The bigger the community, the bigger the results can be.

Many best-in-class talent acquisition functions have recognized the value in their organization's alumni program and effectively leverage these programs for candidate referrals as well as re-engaging the alumni to consider returning to their former organization.

Building Proactive Pipelines of Talent for Key Roles

Organizations with best-in-class talent acquisition functions have moved their focus from a traditional, reactive, and primarily transactional focused approach to a more proactive and future-focused talent delivery model. One of the key steps in moving a function from a reactive talent sourcing model to a proactive focus is in building pipelines of talent for the critical, high-impact roles within the organization.

Managers who must hire people always complain about the time it takes to fill their open positions. Recruiters continue to be frustrated with the unrealistic expectations on timelines to fill open positions. Great talent takes time to recruit and hire. Unfortunately, rarely does great external talent fall onto our laps when we need it most.

Sourcing great talent takes time, especially for the tougher and more specialized positions within every organization. The smart organizations get out in front of the demand for great talent for their most important roles and build pipelines of talent in the market in advance of the need. They know they will need the talent; they just don't know exactly when. Building this type of talent pipeline is not for the light-hearted recruiter; it takes time, effort, investment, and patience and requires planning and skilled resources. The planning and the resourcing are the keys to being successful in building pipelines of talent.

The return on investment of proactive talent pipelining is more than worth the effort. The enhanced quality of the hire resulting from this proactive sourcing channel in time is no longer the recruiter's enemy. Beyond quality of hire, the average time to fill a position is reduced by on average 10–12 days as the sourcing of the top external talent has already been completed prior to the position becoming open.

The Plan for Building Proactive Talent Pipelines

By far the most important phase in building a talent pipeline is the planning. Within the planning stage the organization determines the positions and candidate profiles to seek pipelines for. Start with selecting three to five positions deemed critical to your organization's success and bottom line over the next year or two. Determining what positions are critical is a difficult task. Every hiring manager will say that all of their open positions are "critical" to their success and should be pipelined for. Top-level business leaders should be involved in determining the positions they think are worthy to be pipelined for. Once you have your critical positions identified, you need to invest your time into understanding the position, the type of candidate profile to look for, the message, expectations, and value proposition for the candidates to engage as part of the pipeline.

Identifying the Talent and Mapping the Market

Once the planning is complete, it is time to research, identify, and map the talent in the market who fit the ideal candidate profile. Great talent in the market is passive and likely not actively searching for a new opportunity. The typical transactional and reactive candidate sourcing platforms would not be effective. Don't simply post the position on social platforms. Be aggressive. Utilize technology and tools to identify potential candidates in the market. Use your networks and referrals to determine who is at the top of their field within the market. Understand who is the great talent in your organization's competition or within a recognized leading top talent organization within your market.

Engaging the Talent and Nurturing the Pipeline

Focus on getting potential candidates interested and excited about your organization and the potential opportunities for them. This is where a recruiter must be an effective "salesperson" and sell the talent on the organization and the opportunities that might be a potential fit for them in the future. The recruiter must be honest with candidates and set expectations that they are recruiting proactively for future opportunities and that the candidates have been identified to you as top talent within the market. Recruiters can't be too aggressive with candidates and always ask if it is all right to keep in touch within an agreed-upon time frame. The recruiter needs to ensure that the communication with candidates is very positive and is a win-win for both the candidate and the organization.

Nurturing and keeping your pipeline of talent "warm" and continuing the conversation about future opportunities is critical to the success of proactive pipelining. Keep candidates "warm" through several different touch points including sharing articles of potential interest, news about the organization, and invitations to exclusive organization events. Maintaining an ongoing and mutually positive relationship is critical. Utilize technology to effectively document and track your pipeline of candidates including planned communication touch points. Leading talent acquisition functions utilize a CRM (customer relationship management) tool that is used by recruiters similar to the way salespeople would use the tool for building and managing relationships with their sales pipelines.

Effectively Using Social Recruitment and Candidate Engagement

Social media continue to revolutionize recruitment as we know it. Unfortunately, many organizations are still struggling with how to effectively manage and leverage this platform.

Best-in-class organizations recognize that social media are one of several different talent acquisition platforms, programs, and practices that contributes to their recruitment success. They understand that everyone uses different social media platforms for very different reasons. The smart organizations know which social media platforms generate their best talent outcomes with data analytics. They understand where quality talent is coming from and leverage this understanding to generate more successful results. They focus on quality over quantity in terms of sourcing talent.

Most organizations aren't selective in their social media reach, and they struggle with the enhanced candidate flow coming into them via their extended reach. Most often, the quality talent gets lost in the mass quantity of talent applying for jobs. Many recruiters are struggling with capacity challenges and don't have the time to review and screen all the candidates applying for open positions. Is the higher volume of candidates straining the capacity of recruitment to find the quality talent for your organization and hurting your reputation with candidates in the market who never hear anything back from your organization? Candidate engagement is the next level of candidate experience and is focused on talent outcomes for an organization going beyond a simple branding perspective.

Employer Branding and Authenticity

As organizations continue to compete for talent, the critical driver that many organizations overlook is whether their people, culture, and brand are perceived as authentic.

Why does authenticity matter now more than ever? It's because of our increasingly networked world. Nearly every one of your candidates, employees, customers, and vendors is being asked what they think about your organization. If the message is positive (i.e., if your organization is perceived to be genuine and positive), you have an immense advantage over your competition. However, if the message is negative and your organization is being criticized on various social media and networking sites, then your ability to attract talent becomes much harder.

Treat Every Candidate Interaction as the Last One!

Yes, it's important to try to keep the candidate pipeline full. It's even more important to focus incessantly on treating every candidate interaction as your last one! You should view each visit to your career site, e-mail, phone call, interview, and referral as a key opportunity to convey that your organization strives for and cares about authenticity and all its attributes, such as care, enthusiasm, professionalism, quality, and leadership. Leveraging every touch point in this way is the best way to build authenticity into your organization.

Turn Your Leaders into Authenticity Champions

Your organization's leaders should be your organization's biggest champions. How passionate are they about engaging and elevating your organization's talent? In other words, is talent a key theme on the executive agenda? Is it a priority in the boardroom? Leaders need to be *authentically* waving the organization's flag always.

Make Candidate Care and Experience a Priority

Just like a visitor in a hotel, your candidates should feel like valued guests. Every interaction should be designed for a positive experience, from the initial contact, to communicating tough messages with unsuccessful candidates on why they did not make it past the interview process.

Ensure that Your External Brand Mirrors Your Internal Experience

There is no point in marketing your organization as a top employer if candidates and employees don't support that claim. Nobody benefits when a new hire feels like he or she has been deceived because your external brand does not mirror your internal experience. When that happens, it's only a matter of time before the employee leaves; or worse, stays and contributes to a culture of disengagement. Your organization must feel and show that it's a great place to work. That's the path to authenticity.

A Little Humility Goes a Long Way

No matter how admirable an organization may be, and how often it is ranked as a "best employer" or "most trusted brand," there is always room for improvement. Organizational perfection may be an inspiring vision, but it's not a realistic expectation.

If you detect gaps in your talent function, or if you receive feedback from candidates that their experience with your organization was memorable for all the wrong reasons, then instead of hitting the panic button or going into denial mode, humbly take ownership of the problem and explore what can be done to solve it. Sometimes, simply saying sorry and promising to do better can turn a vicious critic into an engaged prospect.

Organizations must continually make adjustments in an increasingly competitive and complex talent market. And while there are many factors and variables to consider, authenticity is often overlooked as a critical driver; one that not only makes the process of attracting, engaging, and retaining talent easier, but much more enjoyable as well!

Ensuring that the Talent Acquisition Function Is an Effective Business Partner

The most successful talent acquisition functions are those that are true partners with the business. One of the greatest challenges talent acquisition has had over the recent years is how it is viewed by the organization. Unfortunately, many organizations view their talent acquisition function as one of the many transactional roles under the human resources' umbrella. The best-in-class talent acquisition functions have had their roles within their organizations transformed as a standalone business partner. More and more organizations are reorganizing their talent acquisition function with a direct reporting relationship outside of HR to the chief marketing officer, chief operations officer, or even the chief executive officer displaying the importance of the role to the organization's success.

Members of the talent acquisition team must play their part to act as true partners to the businesses they support. Following are the leading practices of best-in-class talent acquisition functions that are considered effective business partners:

Understand the Business

- Understand how your organization makes money.
- Understand the talent barriers your organization faces when it comes to being more productive, effective, and successful.
- Listen and translate your organization's talent needs. Understand the part your role and function play in reducing these barriers and thus allowing your organization to be more successful.

Be a Coach to the Business

- Effective business partners focus on long-term relationship building rather than on a specific transaction or project. Always be focused on the outcome—not simply the process.
- Don't be a barrier, be an enabler. Enable your business to be successful. Be a business partner who works with the business on improving its effectiveness and being successful.
- Great business partners are always prepared. Be prepared to ask smart questions. Be prepared to challenge assumptions. Be prepared to apply your judgment. Be prepared with an understanding of the labor market and the potential recruitment challenges. The business is buying your judgment, not just your time.
- Business partners know how to read the "mood" of the business.
- "Trust" is the most critical aspect in the relationship you have with the business. Being known for your integrity is the most important factor in being a successful talent acquisition business partner.

Be a Consultant to the Business

- Be an expert and recognize that you are your organization's expert in talent acquisition. Invest in your own development to enhance your own expertise. Know the market trends, and what your competition and other industry leaders are doing within talent acquisition. Network, network, and network. It's the best way to learn how trending practices are being successfully applied.
- Business partners always provide their customers with value. Your relationship with the business is never more stable than when your business trusts you completely to take care of it. Don't make excuses. Use metrics and data to back up your observations.
- Be accessible. Good business partners' voices are comforting. They are easy to find. They promptly return calls and e-mails with a sense of urgency.

- Set realistic expectations with the business. Don't be all talk with no action.

Don't Be Afraid to Deliver Tough Messages to the Business

- The business hates unhappy surprises much more than timely bad news. Don't be afraid to be honest with the business.
- The business is *not* always right—don't agree with the business just because it is your client. Remember that you are an expert within your role and the business needs to hear your message even if it won't be popular.

Effectively Assess Candidates for Organizational Fit

One of the most disturbing trends within talent acquisition over the past 10 years has been the talent acquisition function's limited capacity and capabilities to properly assess candidates effectively. The average number of open positions per recruiter continues to increase, thus limiting recruiters' time in assessing their candidates, fit for the role and organization. Many recruiters have the capacity to only do a quick skills and experience prescreen assessment with candidates over the phone prior to presenting them to the hiring manager.

Organizations with best-in-class talent acquisition functions ensure that there is a standard approach to interviewing and assessing every candidate's fit for the role, for their organization, and equally as important, their culture. They want and need their recruiters to appropriately assess talent so that their hires are the best fits with the organization's needs and culture. In the absence of recruiters, they appoint leaders from their organization who are talent-centric and strong in their understanding of their culture and assessing talent to be peer interviewers. Nobody is hired within their organizations without successfully interviewing with the recruiter or peer interviewer. The recruiters or peer interviewers must gauge candidates' overall fit with the organization's culture regardless of their skills and experience. They provide oversight on behalf of the organization ensuring that the decision to hire the candidate is in the organization's best interest. These organizations continuously invest in training their recruiters and peer interviewers to become more effective assessors of talent and their fit with the culture.

To properly assess the right talent for your organization, you need to first understand your own organization's culture and work style. Organizations with best-in-class talent acquisition functions already have a strong sense of why individuals succeed within the organization. These organizations understand what the consistent behaviors and competencies are of the successful talent across the organization. They then use these behaviors and competencies throughout their talent acquisition process and practices to effectively assess candidates and make the appropriate hiring decision.

Hiring Manager Engagement and Training

Every organization has a handful of great hiring managers with whom the talent acquisition team enjoys working. These are the hiring managers who recognize the importance and impact great talent has on the success of an organization. Unfortunately, many hiring managers are a challenge at every organization. From their unrealistic expectations on hiring skills and experience for their open roles, to the organizations' lack of confidence in their hiring managers' abilities to appropriately interview, assess, and select the best candidates for their roles, hiring managers are often doing more damage to the hiring process than good.

- Most hiring managers might recruit and interview talent only once or twice a year and are not naturally comfortable or confident in conducting interviews.
- Candidates have access to more tools and training on interviewing than ever before allowing them to be more skilled and better prepared. Websites such as Glassdoor even provide candidates with access to the interview questions your organization is most likely to ask.
- All candidates will exaggerate their skills, experience, and accomplishments on their résumé and in an interview. How confident are you in your hiring managers' ability to see through the candidate "fluff"?
- Most hiring managers interview candidates solely for the job they have open today and rarely look at the candidates' long-term potential and organizational fit.
- The goal for all organizations should be to develop their hiring managers to be proficient at conducting interviews and selecting the right candidates.

Organizations with best-in-class talent acquisition functions recognize the importance of investing in their hiring managers' capabilities through ongoing recruitment and interviewing education, tools, and training programs. These organizations use several platforms to engage their hiring managers to become more effective:

- *Talent scouts:* Sourcing talent throughout their networks.
- *Talent ambassadors:* Promoting a positive candidate experience.
- *Talent assessor:* Acting as a peer interviewer to select the right talent for the organization.

Recruiters also play a key role as a coach and advisor ensuring that their hiring managers are properly prepared and equipped to conduct interviews. Finally, the most progressive organizations have integrated recruitment and hiring into their core leadership accountabilities thus ensuring that talent acquisition is an organizational focus and not just an HR priority.

Becoming a More Effective Closer: Candidate Offers

One of the most important steps in the talent acquisition process is the candidate offer. Unfortunately, many organizations do not invest the needed attention and training into this critical recruitment phase. Talent acquisition is all about outcomes and the hire. Great candidates who decline your organization's offer are missed opportunities.

Organizations with best-in-class talent acquisition functions look at the candidate offer stage as "closing the candidate" and put the same importance in it that their sales function puts on "closing the deal."

Selling the candidate on your organization, the opportunity, and the value proposition needs to be practiced at every stage within your talent acquisition process. Organizations need to understand when it comes to the actual offer of employment how equipped their leaders are to be successful in closing the deal.

Not only are great candidates likely being recruited by multiple organizations and your organization is only one of several competing for them, there is also the threat that if the candidate is truly great talent, how easily is his current organization going to let him walk away. Always anticipate a counteroffer and ensure that your organization is equipped to successfully compete with a counteroffer in a timely fashion.

Organizations with best-in-class talent acquisition functions ensure that they are positioned effectively to close the deal with their great candidates. An effective end-to-end talent acquisition process that sells candidates throughout will set the foundation for your organization to be more successful in closing candidates. Other factors going into being more effective in closing candidates include:

- Making hiring decisions in a timely fashion.
- Making the best offer first and not playing negotiating games with the candidate.
- Knowing what's important from an offer perspective for the individual candidate.
- Being transparent and authentic.

Conclusion

Hiring great talent is a goal for every organization. Every open position within an organization is an opportunity to upgrade the performance of the role. The more great hires organizations make will positively impact their bottom line and make them more successful. Talent acquisition needs to be an organizational priority to be successful. It should never be viewed as an expense. It is a critical function that requires investment in improving talent acquisition programs and practices that provide an organization with a competitive edge in hiring great talent.

Organizations with best-in-class talent acquisition functions with strong practices recognize:

- Talent is the main driver of their organizational success.
- The recruitment of talent is the key enabler of improving talent within their organizations.
- They need to continuously improve and innovate in the way they recruit talent.
- They need to invest time, money, and resources into talent acquisition to be successful.
- They recognize talent acquisition is an organizational priority and not just an HR role.

Every organization is challenged to be better at hiring great talent. Organizations that invest more time, money, and resources into their talent acquisition programs and practices will have a greater chance to succeed in hiring great talent.

Chapter 26

Social Recruiting: Pick Up the Pace or Be Left Behind

Tony Restell, Founder
Social-Hire.com

The World of Recruitment—Transformed

People say that the practice of recruitment is slow to evolve and that our industry still has the same bad habits today that it had a decade ago. In one sense this is true; the bad practices that should long since have died out are still rampant in our industry. But I also take exception to the statement that we're slow to evolve.

It doesn't seem long ago that I was running a job board business. A job board business creates a website that simplifies both a job and vacancy fulfillment search. It includes a broad range of job categories, industries, and functions. Job seekers post their résumés for consideration by potential employers, and employers list job ads that could be of interest to potential employees. Rewind to that time with me if you would. Our clients would treat candidates in a manner that bordered on contempt:

Want a job with our company? Well you're going to have to jump through hoops to get it! Are you eager to talk to our staff and determine if we're a good employer for you to join? You can do that once we've made an offer and not a moment before! Think we're going to treat you like a customer and try to win you over? Think again! The people we want to hire are those who are committed enough to do as we ask—not those who make unnecessary demands on our time.

Fortunately, digital advances and the emergence of social media forced a change in the recruitment market that we were simply powerless to resist. In the process, would-be employees have morphed from candidates with no power to potential hires who hold nearly all the trump cards.

Embracing the Social Recruiting Revolution

At the heart of this change is the emergence of social media and the power shifts they have brought about within the recruitment market. Use of these new channels for recruiting has broadly been dubbed *social recruiting*. The full array of activities this encompasses has the potential to dramatically transform both hiring approaches and hiring effectiveness. But it's also a term that confuses and alarms recruiters because what constitutes social recruiting is vague and loosely defined.

Having founded Social-Hire.com, I've spent several years advising companies on adopting and implementing an effective social recruiting strategy. In this chapter, I share my insights and relate them in a way that you can follow to strengthen your social recruiting credentials.

Proven suggestions include:

- Using social recruiting techniques to boost your employer brand or recruiting brand and attract potential hires to your business.
- Engaging with influencers in your industry to multiply twentyfold or thirtyfold the reach of your recruiting team's messages in the markets where you recruit.
- Using targeted social media advertising to attract your ideal hires directly to your careers pages or to your most critical job listings.
- Implementing a social referral program to drive more employee referrals from your existing staff base.

- Ensuring that your efforts are not undermined by an inability to convert the growing number of candidates using mobile devices in their job search.
- Researching your ideal candidates on social media and approaching them directly.
- Improving the candidate experience and solidifying candidates' decision to join your company through effective use of social media.

Defining Social Recruiting

Most aspects of recruiting are clearly defined. If you try to fill a role through job board advertising, everyone in the industry knows how you'll be going about doing that and the challenges you will encounter to be successful. The same is true of applicant tracking systems, candidate experience, and onboarding. There is an array of recruiting approaches and sourcing techniques that the industry broadly refers to as "social recruiting."

Following is my definition of the many aspects of social recruiting:

1. Social media and the tools that allow leveraging social media have made it possible for you to research candidates, advertise to candidates, and engage with candidates in ways that were not previously possible.
2. Any approach to recruiting that leverages the candidate data; advertising or engagement opportunities made possible by the existence of social media, can be classified as social recruiting.
3. Not all social recruiting is necessarily social! Advertising your careers pages in the Facebook streams of your ideal candidates can be highly effective, but unless the advertisement encourages people to engage with members of your team, there's nothing inherently "social" about such a campaign. But I still classify it as social recruiting.
4. People are either talented at job board advertising or they are not. In the case of social recruiting, it's possible to be an expert at some elements (e.g., sourcing candidates using social tools) and a novice at others (e.g., building a recruiting brand on social media).
5. The skills required to master social recruiting are highly diverse. For most recruiters, it is wise to become masters of one or two of these rather than trying to understand and leverage the full range of options.

Using Social Recruiting Techniques to Boost Your Recruiting Brand and Attract Hires

Having a strong recruiting or employer brand on social media is important in two key respects. First, being a name that candidates know and respect improves the returns you get from every other recruiting activity you undertake: the response rate on your job board advertising, the LinkedIn InMail reply rate you achieve, or the acceptance rate on your job offers. If yours is a company that candidates feel an affinity for, the results achieved are improved at every turn.

A strong recruiting brand on social media can be a new means of attracting candidate interest in its own right. Think of your social media followers as your talent pool and your advocate network. A company that wins a large following for its recruiting team's social media profiles has a ready-made audience of potential candidates that can be enticed to submit their résumés in the future. It also increasingly has a network of people who believe in the business and who will become willing to share your openings with their networks.

There are four key steps in building your social recruiting brand presence. Keep in mind that audience research is a key success factor. Too many recruiters have an unhealthy obsession with LinkedIn. While it's a great platform for candidate sourcing, the data and LinkedIn's briefings with stock market analysts confirm that it's one of the social sites where people spend the least amount of time. So think more broadly about your social media presence when deciding where to invest your time.

Four Key Steps in Building Your Social Recruiting Brand

Step 1 is being very clear within your team about the audience you want to reach with your social media presence and what your business objectives are for building your presence in social media. What do the people you come into contact with on social media need to do in the coming weeks and months that will mean your social media investment has produced a return for you? Defining outcomes at the outset is key.

Step 2 is breaking the mold and addressing what will make your profiles valuable, entertaining, and insightful to your target audience. All too often recruitment businesses and recruiting teams are guilty of their social streams being focused on self-promotion. "Check out our jobs, visit our new website, can you recommend someone who ..." none of this looks valuable to a potential follower visiting your profile. If you want to become a magnet in your industry, then you need to become an entertaining or inspiring resource in your niche market; one that people will come to view as indispensable and whose updates they will want to share with others in their network.

Steps 1 and 2 give you a social media presence that looks professional, but will not grow a larger audience of candidates or clients. That is where Step 3 is key.

Step 3 involves understanding each of the social platforms where you have built a presence and then learning the unique steps that need to be taken to get your profiles seen by more of your target audience on that particular platform. This will involve lots of testing or learning from others who know how to get results. Once you have found approaches that work, your team needs to apply these consistently across your social networks.

Step 4 centers on engaging with your target audience on social media. This may mean reviewing the profiles of everyone who has interacted with your company on social media and following up accordingly. Or it may mean discovering conversations taking place in your industry and jumping in and participating in those conversations. For most recruiting teams, it's this engagement that is central to driving business value from your social media recruiting presence. It's also the element that is most often abandoned when teams find themselves short on time.

Engaging with Influencers to Expand the Reach of Your Messages

There are already people and organizations on social media who have massive followings of the exact types of people your business would like to reach. Your recruiting team wants to find the influencers in your industry who regularly share content and updates from other businesses. Influencers who will not share your messages to their audience are of limited value to your team, so this willingness to share is a key element to being successful. By using tools such as BuzzSumo, you can identify many of the influencers in your industry who are likely to help expand the reach of your brand by sharing your updates.

Once identified, the key skill is to be social! Don't launch straight in with a request that they help you. Instead, invest time in forging a relationship. Share and comment on a few of their updates. Follow them, like something they have published, ask a question that encourages them to share more information about themselves or their business.

Generally speaking, a small effort on your part will usually go a very long way. While many recruiters tend to be focused on the followers they are able to win for their recruiting team, they should also think about the total reach that their profiles are able to achieve. If your brand could start reaching 20 or 30 times as many people as your own follower count makes possible, that could have a very significant impact on your visibility in the market.

Using Targeted Social Media Advertising to Attract Your Ideal Hires

Job boards have played a massive role in the recruiting industry for much of the last 20 years. Recruiters came to love how easy they made it to generate applicants, but sometimes despaired at the volume of inappropriate applicants generated or the feeling that the job board wasn't tapping into the much broader passive candidate pool that the recruiting team wanted to reach. That's the advantage of advertising jobs via social media.

Novices pump jobs out in their Twitter streams or on their Facebook pages, not realizing that this is making them look desperate and harming their prospects of attracting a loyal and engaged following of prospective future hires. Pros realize that social media provide a means of defining the exact audience (passive and active candidates) that the business needs to reach and then paying to have a job listing or career page displayed just to that targeted audience.

Here's a quick overview of how you would go about doing this. You can burn through money very quickly trying to figure out how to generate results with this type of advertising, so consider getting expert input on your campaigns or even entrusting them to a third party if you don't have the expertise in-house.

1. Run Hypertargeted Advertising Campaigns on Social Media

Pushing out jobs on your own social media accounts is futile. It barely scratches the surface in terms of reaching your target candidate audience and also risks alienating your network if you are continuously sharing roles that are not a fit for many of the people seeing them. Do business people connect with you on LinkedIn or follow you on Twitter to get nothing but a barrage of your job posts? Not likely and chances are they'll only tolerate this for so long.

Instead, you want to tightly define the target audience who would be most interested in each of your vacancies and then target advertisements to appear only in the streams of those people most likely to be interested.

There's some work to be done here in understanding the advertising solutions that each social site offers. Each advertising platform has specific things to focus on perfecting in order to get the maximum results. But if done properly, your job advertisements and hiring campaigns can be put in front of a sizable proportion of the entire candidate market that you'd like your employer brand and hiring message to be reaching.

The overriding concept is that each social site has a bidding system of sorts for advertisers. The poorer your advertisements perform in terms of attracting interest, the more you will be charged for each click or engagement that they do generate. To reach this pinnacle, always test to uncover what works best and what messages and ad formats produce the greatest response. Then refine accordingly.

2. Not Targeting Your Recruiting Campaigns to the Right Devices

If you want to attract candidates via social media, you need to be attuned to the fact that most social media usage takes place on mobile devices. If you offer a terrible mobile experience for candidates, then the chances of your campaigns being a success are going to be greatly lessened.

So the first question to ask is whether the job advertisement or careers page you are presenting is optimized for mobile devices. If you don't have a mobile-optimized job advertisement, then you need to either invest in getting this fixed, or restrict your social media advertising campaigns to people using desktop computers.

Just as important is the next step: What is your application process? Is the application process mobile-friendly? If it's not, then you're going to frustrate a lot of candidates who find it almost impossible to apply from their mobiles. If you don't have a mobile-friendly apply option, then you need to either invest in getting one or limit your social media advertising campaigns again to only desktop users.

The attitude that says, "The best candidates will find a way of applying" doesn't cut it in today's hiring market. The best candidates will have other options and probably don't need to change jobs, so anything in your process that harms the application rates you achieve needs to be addressed as a top priority.

3. Not Having a Laser-Focus on Reaching the Right Candidate Demographics on Social Media

Your short list of candidates will be as good as the pool of candidates who saw the job advertised in the first place. Taking the time to carefully target the demographic who will see your job advertisements is a key step in getting results via social media.

4. Being Lazy with Your Advertising Copy

Using images in your social campaigns dramatically increases response rates. Visually appealing social media advertisements are more likely to be clicked on. Job listings that are visually appealing—even going so far as to incorporate video—are also far more likely to lead to a conversion.

A key part of successful social recruiting is ensuring that you throw out the dull advertisements derived from monotone job descriptions. Instead, opt for something that excites the members of your target audience and makes them want to take action. Why do people choose to work at your company, what are some of the exciting things that await a successful candidate, what does your ideal hire look like? Connect with candidates on a personal level and in an engaging manner, and your job listings are far more likely to convert candidates.

Implement a Social Referral Program to Drive More Employee Referrals

Whether you use one of the many social referral platforms or go it alone with your internal project, the upsides from engaging staff to provide referrals are threefold. First, by tapping into the networks of your staff, you can potentially reach a lot of your target candidate audience in a way that's more personal than advertising to that same audience.

Second, when receiving an invitation to consider a vacancy from someone they know, the chances of candidates looking at the message and clicking to check out the vacancy are greatly enhanced. The likelihood of them warming to the company is also improved if they already know people in the organization.

Last, but not least, paying existing staff, rather than external suppliers, to generate candidate leads improves the remuneration of your staff while bringing onboard staff members that the team is more likely to bond with. So there's the added benefit that your staff retention rates are likely to be increased and the pressure to make additional hires is correspondingly eased.

Overall you need to have processes and technology in place that make it fast and easy for employees to get involved in the referral program and to start sharing knowledge of vacancies with appropriate candidates. You also need to have the buy-in of senior management, who need to champion the project from the outset to maximize the number of staff members who become active.

The Rise of Mobile Recruiting

While mobile recruiting and social recruiting are in some ways distinct, they are also highly complementary. Once you consider that most social media users are accessing their social accounts from a mobile device, it should clearly follow that no attempts to secure candidate applications via social media can be successful unless the steps that candidates need to follow in order to apply have been mobile optimized.

Mobile recruiting covers more than just this. Your careers site needs to be mobile optimized. Your ATS needs to be mobile friendly. Your e-mail communications with candidates, interview invites, and video interviewing platform need to be considered with the mobile candidate in mind.

Research Your Ideal Candidates on Social Media and Approach Them Directly

Today there are vast "résumé databases" available to anyone who wants to start working as a recruiter, where only 10 years ago they would have been proprietary assets of a recruitment business. So the barriers to entry for an in-house recruitment team to find and approach candidates directly have been massively reduced. Similarly, the barriers to entry for people leaving a recruitment business to set up their own competitor business have also disappeared.

How to effectively mine LinkedIn for talent, how to find tech candidates on GitHub when you find they've deserted LinkedIn, how to tap into the more sizable profile databases that Facebook and Google+ provide, how to find the in-depth social profiles of candidates who've caught your interest on Twitter. All this and more are the realm of the social sourcing specialist. There are various tools you can use to find talent across social platforms: TalentBin (by Monster), Entelo and Open Web (from Dice), to name but a few.

Improve the Candidate Experience and Solidify Candidates' Decisions to Join Your Company

Last, but not least, is the impact that all your social media activities can have on the candidate experience. At multiple points during the research, application, interview, and offer acceptance stages, it's highly probable that your candidates will have interactions (or a lack of interactions) with your business and people in your business who influence whether they ultimately go on to be hired.

Whether candidates research the possibility of joining your company will, in part, be influenced by the exposure they have had to your brand preceding their decision to change jobs. Whether they go on to apply to one of your openings will be influenced by what others are saying about you on social media and on sites like Glassdoor. It will also be influenced by whether they have seen the relevant vacancies you have for them, the chances of which can be significantly boosted with the right social recruiting strategy.

Once they are invited for an interview, you need to know what interactions are occurring with people in your business, on social media, that could be influencing their opinion of your business. What interactions could you proactively manage to make that impression more favorable and provide a means of answering any concerns or questions the candidate might have? Once candidates have been made an offer, what contact are they having with their future colleagues that could shape their decision to accept? All these touch points contribute to the overall candidate experience that you offer and therefore to the acceptance rates that you are able to achieve. They've all been made more potent by the advent of social media and are another key element of social recruiting.

Concluding Remarks

Social recruiting is constantly evolving. As new features are rolled out on social media, the opportunity to experiment with new approaches to recruitment is multiplied. So too is the potential to gain a competitive advantage in your industry by uncovering social recruiting tactics that work better than those of your competitors. This is a very good case for specializing in certain realms of social recruiting so that you are in tune with developments in the area of social recruiting that benefits your company most directly. But it also makes a good case to always be experimenting. New recruiting technology platforms are constantly bringing exciting new approaches to market. Of course, not all will succeed, but when pondering the vast array of new recruiting approaches possible, there is no doubt that what constitutes social recruiting will continue to evolve at a remarkable pace.

Chapter 27

Increasing Your Odds of Success in Picking the Right CEO

RJ Heckman, PhD, Vice Chairman
Dennis Carey, PhD, Vice Chairman
Korn Ferry

When Alan Mullaly, the highly successful CEO of Ford Motor Company, announced he was retiring in 2014, the move didn't set off alarm bells with investors, analysts, or employees worried about finding a worthy replacement. Two years earlier Ford had elevated Mark Fields to the role of chief operating officer and anointed him as Mulally's heir apparent, handing over day-to-day operations as part of a succession plan that continues to pay dividends for the resurgent automaker.

The transition of CEO power wasn't quite so smooth at organizations like Hewlett Packard (HP), Citigroup, and Total, the French oil giant. Not long after HP lost 40 percent of its stock value under new CEO Leo Apotheker, reports emerged from an HP director that Apotheker had been "sold to the board." He vowed that it won't happen again. Apotheker's reign lasted less than a year.

At Citigroup, chairman and CEO Sandy Weill had overlooked or fired many of the top candidates to replace him during his tenure, including Jamie Dimon, who went on to success as CEO of JPMorgan Chase. Dimon managed that bank through the great recession and transformed it into the U.S. leader in domestic assets and market capitalization. Meanwhile, Weill appointed friend Charles Prince to the CEO role, where he proceeded to lose billions of dollars from investing in bad debt and was eventually replaced by Vikram Pandit. Then just a day after sounding upbeat on a bank earnings conference call, Pandit himself was gone, leaving behind shocked employees and a board scrambling to find a replacement.

In 2014, longtime CEO Christophe de Margerie of Total held a meeting with his board where he announced he'd identified his successor inside the company and planned to make an announcement about that individual soon. But that heir apparent remained a mystery to the board. Shortly after the meeting Margerie died when his plane collided upon takeoff with a snowplow at the Moscow airport. With no formal succession plan in place, the board was forced to move hastily to fill the leadership void.

"Waltz" Model Drives Success

With the hiring and firing of CEOs as their chief responsibility, boards have a fiduciary duty to create strong succession management practices in organizations they oversee. Corporate history abounds with stories of rash or poorly conceived succession plans that led to the wrong person being placed in the role, with the ill-chosen chief executive undermining company performance, crippling the business brand, and setting back organizations for years.

A recent global research study by Korn Ferry found that only one-third of respondents were satisfied with the outcomes of their executive succession programs. That's an alarming trend, given that the median tenure of a CEO in a Fortune 500 company is less than five years.

By imagining succession planning as a three-step "waltz," boards can greatly increase their odds of choosing the right CEO. Like the ballroom dance, the steps of this waltz must be performed nimbly and in interconnected fashion; executing any of the steps out of sequence will derail the process. These steps are: (1) identifying with laserlike precision the diverse requirements of a future CEO, (2) evaluating CEO candidates using a multifaceted assessment process that employs validated science to deliver highly predictive results, and (3) efficiently closing gaps between the CEO talent required by effectively developing internal leaders or through external search.

When delivered in concert, these steps allow boards to transform CEO succession from the luck of the draw to a rigorous process that ensures that their ultimate choice will not only have the right leadership skills and traits for the job, but will also be singularly equipped to drive a specific business strategy.

This critical business process is the lifeblood of successful companies and functions optimally when fully integrated into a company's talent management strategy. Launching the process when a CEO announces he or she is ready to move on often dooms these high-stakes decisions to failure. When well-conceived, succession plans identify a range of internal candidates years in advance—including leaders a few levels below the CEO—who may one day be ready to lead the entire company. These insiders should be groomed through use of challenging, enterprisewide assignments, targeted development, and coaching to close gaps between their capabilities and what will be required of them to lead the enterprise.

Boards that master this succession planning waltz also keep their plans flexible, knowing that in a world where cycles of disruptive change grow ever shorter, leadership needs can change in a hurry—and succession plans must change with them. The use of one static succession process carries the danger of producing generic leaders capable only of devising me-too strategies and delivering unremarkable results.

The process also benefits when a CEO takes a lead role in planning. CEOs hesitant to acknowledge the inevitability of their own departures or who believe they are "planning their own funeral" will poison the efforts. Boards should ensure that succession planning starts early and that CEOs contribute to identifying a field of potential candidates.

Creating CEO Success Profiles

CEO succession plans should have deep roots in business strategy. The first step in the waltz features creation of a CEO success profile that details four key dimensions needed for success—experiences, competencies, traits, and drivers—but also ensures that each of these dimensions is defined and examined within the context of specific business strategies needed to outperform the competition. When profiles aren't inextricably linked to strategy, the threat grows of hiring one-size-fits-all CEOs who aren't custom-fit to specific business objectives.

If a strategy is based on operational excellence, product innovation, or customer intimacy, candidates should possess the right stuff in the four dimensional areas to execute those strategies at world-class levels. Strategic mind set, decision quality, and global perspective are examples of competencies that likely will be required. Experiences could include a focus on functional track records, international assignments, or—if required by business strategy—directing organizational turnarounds.

Before Ford hired Alan Mulally, the board created a CEO success profile that sought a leader who was well-grounded in complex operations and manufacturing, who understood technology's role in sophisticated machinery, and who was adept at breaking down silos to create a united global leadership team. Board members also wanted a CEO who was confident, indefatigable, and resilient and who possessed world-class leadership experience. Mulally fit the bill on all counts, as proved by his successful tenure.

The complex personal traits and drivers that executives possess—who they are as people—are equally important to include in success profiles. These dimensions determine how CEOs will deal with inevitable challenges; ethical dilemmas, and interpersonal conflicts that arise on the job and can easily derail their tenures.

Well-measured personal traits go far in predicting leadership behavior that may be suboptimal or even reckless and endanger the business brand or an organization's very survival. Recent ethical lapses in the top leadership ranks of organizations like Wells Fargo and Volkswagen underscore the importance of accurately gauging a potential successor's values, character, and integrity. Wells Fargo CEO John Stumpf was forced to step down following a scandal in which bank employees created millions of phony accounts without customers' knowledge. At Volkswagen, CEO Martin Winterkorn was ousted after an investigation showed the German carmaker had manipulated the results of emissions tests.

If an organization is undergoing transformation or pivoting to a new strategy, the spec for a new CEO also should reflect a successor's capacity to execute shifting objectives and emphasize personal traits like agility, flexibility, and tolerance for risk-taking. Top candidates should have an ability to change quickly and possess the learning agility to move as the target moves for an organization's success.

Finally, success profiles should reflect an ability to balance short-term execution with long-term strategic thinking. If a company is competing on innovation, for example, a CEO will need keen visionary skills to keep the organization ahead of the curve. For example, while CEO Steve Ballmer kept the sales and profit of

Microsoft healthy during his tenure, some analysts believe he failed to grasp the next big technology trends affecting his industry—smartphones, digital media, mobile operating systems, the cloud, and artificial intelligence.

Future CEOs should be right for the time and for the business strategy. The more defined the strategy, the less important certain competencies, experiences, traits, or drivers will be to finding the right fit for the CEO job.

Candidate Assessment: Replacing Check-Ups with MRIs

With a CEO success profile established, boards should go beyond using traditional assessment methods in evaluating internal or external succession candidates against the profile's requirements. Predicting the future success of even the most promising CEO prospect is a daunting task. In the case of internal candidates, boards will be appointing someone who likely will be holding the CEO job for the first time.

The good news is that assessment science has evolved to a point where boards can make these predictions with far greater accuracy than previously. In this second step of the succession waltz, organizations should create a four-dimensional, "whole person" view of candidates that assigns as much weight to less tangible but critical factors like traits and drivers as it does key experiences and competencies.

Candidate assessment in many organizations remains akin to having a 15-minute diagnostic discussion with a physician about a medical problem. A whole-person, science-based assessment, on the other hand, is tantamount to putting candidates through a magnetic resonance imaging (MRI) test. Assessment results are invariably more comprehensive, detailed, and definitive—as should be the case given their vital role in the high-stakes CEO selection process.

Evaluating CEO candidates should be a multifaceted process that includes interviews and extensive exposure of the candidates to a board, simulation and psychometric assessments, reference checks, and more. Assessments of insiders should be based on interviews with a variety of leaders who have worked with candidates to protect against favoritism or biases like length of service.

Aggregating all these data points ensures that intuition and extrapolation don't hold sway over validated science when evaluating CEO candidates. While the competencies and experiences of certain candidates might correlate generally with a CEO success profile, it's one thing to manage a division or single profit and loss area with distinction and another to possess the integrative and agile thinking needed to drive the business strategy of a full enterprise in an unforgiving market.

CEO simulation exercises can predict with great accuracy how candidates will behave in these challenging scenarios. The executive simulation test results of Mullaly—among the best scores on record at Korn Ferry—proved predictive of his success not only as a Boeing executive but in leading the stunning turnaround at Ford. Mullaly astutely upgraded the automaker's product line, engaged more effectively with dealers, and boosted Ford's green strategy with hybrid cars. In the process, he helped Ford stave off bankruptcy during the great recession, rejected the government bailouts his competitors accepted, and helped Ford surpass GM as the number one U.S. automaker.

Advancements in assessment science also can give boards a more accurate gauge of candidates' traits and drivers, allowing boards to filter out those with a dubious moral compass or who possess personality characteristics that can imperil a company. Shareholders at Valeant Pharmaceuticals likely wish the board had done a better job of vetting the traits and drivers of CEO Michael Pearson, who was forced out of the job amid federal allegations of extreme price gouging. Ditto for those with a vested interest in Yahoo, where former CEO Scott Thompson lasted just four months on the job after it was discovered he had embellished his résumé.

Traits and drivers also need to align with a company's strategic direction. Companies in a start-up or a turnaround situation might be tempted to favor CEO candidates with deep knowledge of the industry, a good grasp of emerging trends, or elite subject matter expertise. But if that candidate also isn't comfortable with a high-visibility role and a need to constantly seek buy-in to a new vision, the board may find itself with a case of buyer's remorse.

Closing Talent Gaps: Weighing Build Versus Buy Decisions

In the third and final step of the succession waltz, organizations close gaps between the CEO talent required and the talent available for the job. Companies either opt for "build" strategies (developing leaders from within) or "buy" (hiring outside) to fill the top leadership role.

Boards skilled at CEO selection take pains to weigh internal versus external candidates using the same rigorous assessment science to evaluate each candidate type against the CEO success profile. Additional factors also will weigh into the build versus buy decision, such as how quickly CEO positions need to be filled, compensation issues, or external forces buffeting a company that may require leaders from outside of the organization who are uniquely equipped to drive new strategies or to right a listing ship.

When Build Is the Decision

If building internal candidates is the choice, organizations are best served by constructing two succession plans. The first is a contingency plan designed for an unforeseen exit by a CEO. Boards need to identify "ready now" candidates in the event that they have to move with alacrity to fill the job following a death, scandal, or other unanticipated departure.

How best to determine readiness for promotion? After a period of development, leaders can be assessed to see how they perform against the challenges of a more advanced role—in this case the CEO position. These assessments are often live simulations that create the unique, high-pressure environments and decision-making situations leaders will face on the job.

The second plan is longer term and identifies three to four high-potential internal candidates to groom for succession to the CEO role over a time period linked to the current CEO's anticipated departure. Those candidates are assessed against a senior executive success profile and a development plan is built to close identified talent gaps from the assessment results.

Central to the comprehensive development plans that emerge from these assessments are targeted action-learning initiatives. Candidates are asked to lead enterprisewide projects to build their strategic and cross-functional leadership competencies and given assignments tied to driving specific strategies such as running units in emerging markets or redesigning a division's digital strategy.

Candidate development should be closely linked to business goals and strategy to avoid producing generic leaders; standard development programs that aren't customized to specific needs can hinder fulfillment of candidates' true leadership potential. In addition, development initiatives prove most effective when based on the venerable 70/20/10 model, which holds that leaders should obtain 70 percent of their knowledge from job-related experience, 20 percent from interactions with others, and 10 percent from formal education efforts.

As part of these plans, candidates also are assigned executive coaches to accelerate their development and given frequent exposure to the board through project initiatives, presentations, mentoring opportunities, and social events, not simply through contact at board meetings. Interacting with prospects in these settings gives boards a more well-rounded, "warts and all" view of those in contention to lead the company.

Placing top candidates in parallel development efforts, rather than targeting resources to one heir apparent, also improves the odds of keeping other talented insiders in key leadership roles after a CEO successor is named. Managing the transition to a new CEO requires a careful hand, good timing, and deft communication skills. When Disney identified Thomas Staggs as the likely heir apparent to CEO Robert Iger, it placed Staggs in the COO role three years before the CEO's planned retirement to groom him for the top job. But the company never fully committed to Staggs, who as a result grew impatient and eventually resigned.

When Buy Is the Decision

While developing a bench of well-groomed insiders is ideal, some board members will prefer to hire CEOs from outside or those with a history in marquee organizations. While that approach can be effective—see Ford's hiring of Mulally from Boeing—it's typically the best option in select circumstances, such as when organizations are experiencing rapid growth or when a business model is under siege from disruptive change. In other cases, the need for external search may result from companies being unable or reluctant to identify capable internal successors.

When a decision is made to hire externally, boards should confidentially identify and evaluate a handful of executives from relevant industries, conducting blind referencing to determine top players.

External candidates should be assessed against the CEO success profile in the same rigorous fashion as internal candidates. Boards routinely make mistakes by failing to use the best assessment science available to review outsiders; those skilled at CEO selection avoid playing favorites, setting aside assumptions that either a high-profile outsider or rising-star insider is best. Objectivity rules the room as these boards base final comparisons of internal and external candidates on the same data-driven criteria to assess readiness, motivation, and fit to specific business strategies.

Supporting the New CEO

Incoming CEOs face a breadth of daunting challenges whether they're assuming the top job for the first time or are experienced chief executives taking the helm of a new company. Executive coaches can be invaluable in helping these CEOs adapt to their new jobs. But beyond these leadership challenges loom threats to the CEO's physical and emotional well-being. Protracted work days, continuous travel, and unrelenting pressure to outpace competitors can exact a toll on CEOs as well as their families that workaholic executives often choose to ignore or that can go undetected.

Board support for new CEOs should extend beyond continued development and coaching to providing assistance that ensures that these leaders maintain optimal energy and health to function at peak levels. Such support might include financial planning advice, access to personal trainers or dieticians, and regular physicals. Concierge services also can help CEOs manage the personal or family-related duties that often go unattended during frequent business travel or extended work hours.

Summary

Leading an organization only promises to grow more challenging as business models encounter rising threats from around the globe. Boards can improve the odds of choosing the right CEO for the job by using this proven, three-step approach to succession planning. Creating more precisely defined CEO success profiles; using multifaceted, science-driven assessment to evaluate candidates; and employing more objective strategies in weighing insider versus outsider prospects will make CEO decisions far less about the roll of the dice and more about the outcome of rigorous, reliable, and rhythmic selection processes.

Chapter 28

Onboarding as a Critical Component of a Talent Acquisition Strategy

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THE U.S. WORKFORCE MADE A SIGNIFICANT, YET RATHER QUIET, SHIFT IN 2015. FOR the first time there were fewer baby boomer employees than millennials. Based on the statistics of the U.S. Department of Labor, the millennials grew to 53.5 million and the boomers shrunk to 44.9 million, with the gen X population leveling out at 52.7 million.[1] Figure 28.1 graphically depicts U.S. Labor Force generational statistics from 1995 to 2015.

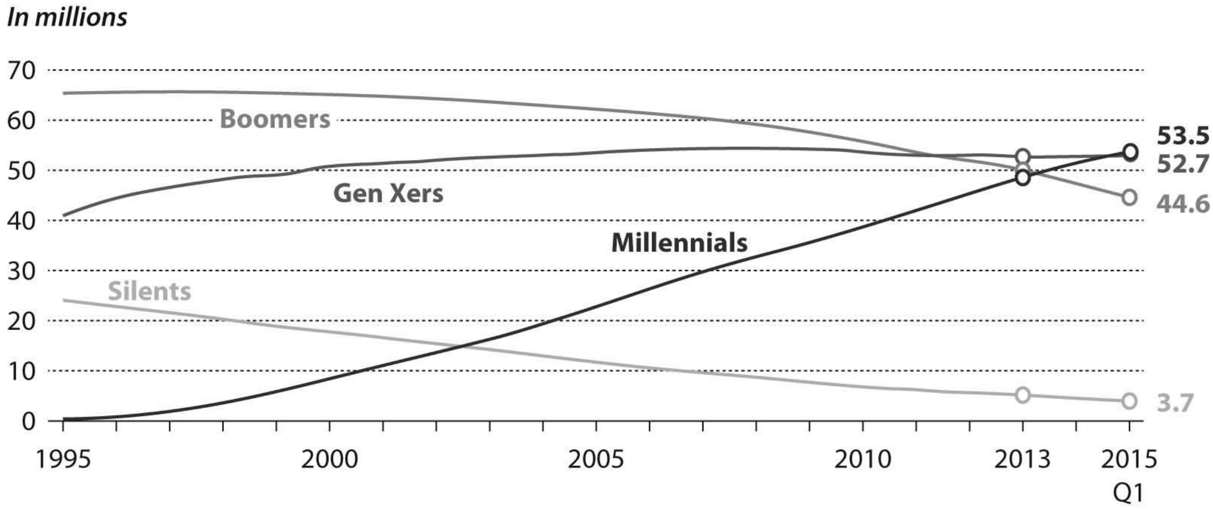

Figure 28.1 U.S. Labor Force by Generation, 1995–2015

Note: Annual averages plotted 1995–2014. For 2015 the first quarter average of 2015 is shown. Due to data limitations, the Silent generation is overestimated from 2008–2015.
Source: Pew Research Center monthly tabulations from 1995–2015. Current Population Surveys, Integrated Public Use Microdata Series (IPUMS).

The significance of this shift is that for the first time, employers were being impacted by the preferences and choices of this dominant part of their workforce and they quickly realized that to be competitive, it was critical that they adapt to these changing needs. Unlike in the past when new employees were expected to assimilate into the company's culture and comply, millennials are now reshaping the culture of their employers or opting out with less traditional career choices. What we know about members of this population is that they are interested in creating a quality of life for themselves that is not entirely focused on their careers. Millennials are motivated by collecting experiences that will help them grow as people and achieve their life goals including those that are not work-related. Many are making choices that include travel and longer leaves of absence that baby boomers would not have considered because of the time away from their jobs and the potential impact on career opportunities and advancement. This has forced employers to rethink the traditional career track so that they can attract and retain the top talent they need.

Another part of this reshaping of the workplace is the expectation that all new hires receive a comprehensive and consistent onboarding experience. Anyone who has been in the workforce for a while can relate to the fact that most onboarding has not been either comprehensive or consistent and too many times looks like a "sink or swim" test of fitting into an organization and figuring out how to be successful. Organizations are learning that to recruit and keep the right people, they must be prepared for their new hires to join and have a plan to address their specific needs for getting up to speed. Otherwise, these new hires will quickly become disengaged and not deliver what they were hired to do, often resulting in turnover or suboptimal results.

The Business Case Is Old and New

We have seen both the disengagement and the suboptimal results that are produced when new hires do not reach their potential. The business case for onboarding becomes clear and painfully obvious for the employers of these hires. Many, if not all, of the "scary statistics" that started to be collected in the mid to late 1990s are still true today. Dr. Michael Watkins, in his book, *The First 90 Days*, got our attention by highlighting that 40 percent of all new leaders fail within the first 18 months on the job.[2] This number has unfortunately been consistently validated by both research and anecdotal data. Egon Zenger also conducted its own onboarding survey and found that there is a 50-50 chance of failure for new hires who do not receive a formal onboarding experience and are left to "sink or swim" in their new roles.

The Aberdeen Group has also contributed to the body of research data in onboarding and has produced several reports over the last 10 years. They focus on the positive impact of a formal onboarding experience, and in the February 2010 report the research states that, "90% of all new hires decide to leave or stay at their new jobs within the first six months." In the same report, there are also data that suggest that onboarded employees have 2.5 times more performance improvements within the first three months than those without onboarding (Aberdeen, Feb. 2010).[3]

The combination of the onboarding research data and the changing expectations of the new workforce have created the strongest case for delivering a formal onboarding experience. Organizations have the opportunity to add or update a critical component of their talent acquisition strategy with a comprehensive and consistent onboarding program. The talent acquisition process has evolved into a sophisticated system of talent needs assessments, succession planning, workforce segmentation, employment branding, and candidate relationship management while leveraging technology solutions and using metrics and analytics to measure success. Talent acquisition teams are measured by metrics that include retention and engagement, so their interest in and connection to onboarding is strong. Onboarding is a natural extension of the organization's talent acquisition strategy, and organizations will benefit from investing in developing and delivering a robust onboarding experience. We represent onboarding as a business process that is included in an organization's overall talent management life cycle. Each section has a beginning and an end, yet each builds on one another as employees progress through their careers. Figure 28.2 depicts the talent management cycle beginning with onboarding.

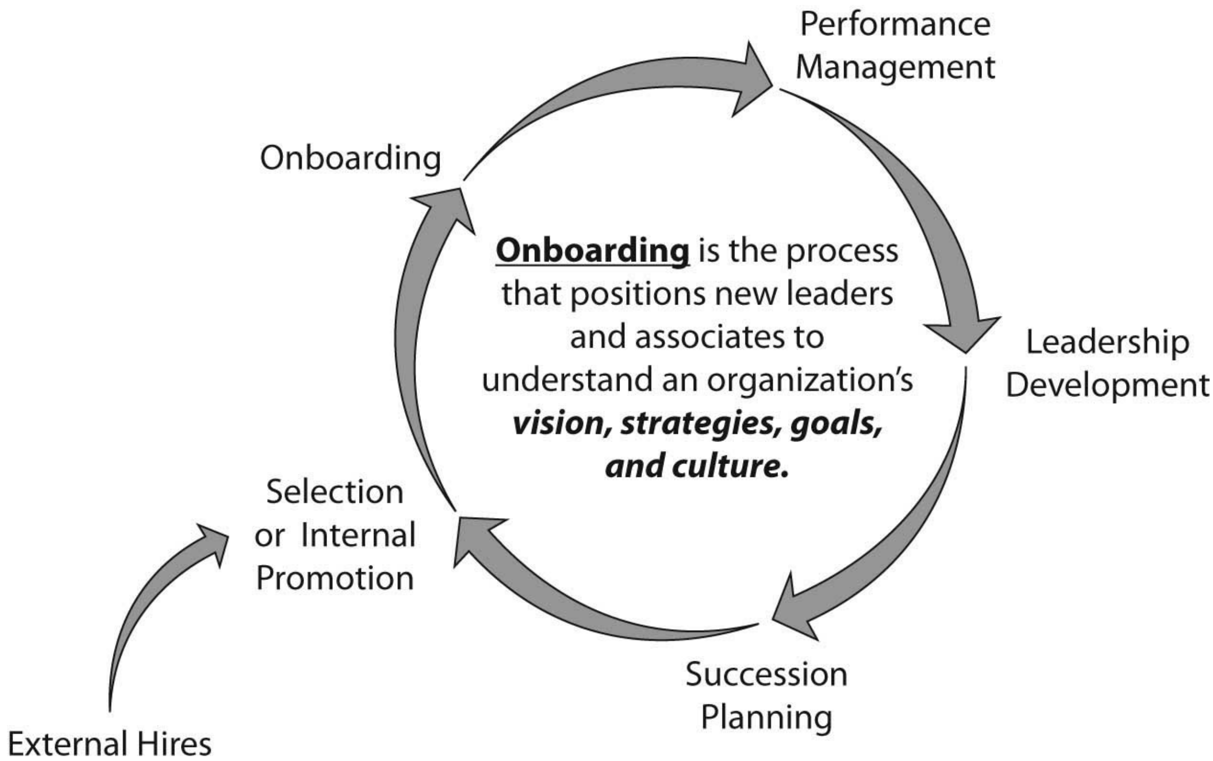

Figure 28.2 Talent Management Cycle

What Does Onboarding Really Mean?

For as long as onboarding has been recognized as a component of the talent management life cycle, there continues to be a wide variety of definitions. We talk with hundreds of human resources professionals each year at conferences and events and are always surprised by their unique perspectives and definitions of onboarding. One recent example was a woman who raised her hand in a conference presentation session to respond to our question, "Who is using technology to deliver their onboarding experience?" She answered by describing her organization's LMS (learning management system) and how it delivers online compliance training to their new associates. We would agree that this type of training has a place in the onboarding experience, but it certainly does not provide a complete or formal onboarding experience for new hires.

The best-practice definition for onboarding is a process, using the three pillars of *knowledge, relationships*, and *feedback*, that aligns its new leaders and associates with the organization's vision, strategies, goals, and culture. Onboarding success results from the partnership of the new hires, their managers, and HR business partners. What is also very important is to create an effective onboarding experience that is compatible with the culture of your organization. It should also have a defined timeframe that encompasses a specific beginning and end for each new hire. The simplest way to determine the ideal length of your onboarding experience is to ask, "How long are people considered new in our organization?" This may seem like an obvious question, but it does vary significantly from company to company. Many small start-ups consider people "new" only until the next person is hired—this could be a matter of weeks or even days! In more established organizations, "newness" is dependent on the culture and how the organization accepts new hires. We have worked with some companies who consider people "new" until two years in and only then have they earned the right to contribute. More commonly, onboarding is recognized as having a four- to six-month duration, although we have noted that some may extend to a full year. Research suggests that most new hires are not fully integrated into their organizations until they have experienced a complete year business cycle, yet we know they make their decisions to stay or go, long before that year is up.

Onboarding plays the critical dual role of maximizing both the learning and contributions of new hires in their first year on the job, while keeping them engaged with just-in-time learning, information, relationship-building, and timely feedback.

The model depicts both the onboarding phases in time, as well as, the experiences of the new hires in those phases. The three pillars of onboarding—knowledge, relationships, and feedback—are the overarching themes for success. Following is what all new hires need when they onboard.

Knowledge of the—

- *Organization:* Mission, values, business model, products, and services.
- *Function:* Impact on organization, structure, contributions.
- *Role:* Purpose, scope, impact.
- *Culture:* History, behaviors, norms.
- Business processes.
- Decision making.

Relationships with—

- Manager.
- Peers.
- Direct reports.
- Senior leaders.
- Support functions.
- Customers.
- External partners.

Feedback that is—

- Formal.
- Timely.
- Actionable.

Prestart Is the Sweet Spot

The onboarding model shows that the process begins at the time the employee accepts the job and continues through the day she starts. We call this period prestart. It is a critically important time and is a "sweet spot" for accelerating a new hire's transition. Unfortunately, it is often a time that is overlooked or underutilized. Prestart is an opportunity for the "warm hand-off" of a new employee from the recruiter to the HR business partner. Studies show that a new hire's engagement level is at its absolute highest right after the job has been accepted and she is disconnecting from her former role and organization. Prestart activities should focus on relationship building and minimally include a phone call from the recruiter or some other member of the talent team including the hiring manager. The acquisition team should be sensitive to signs of "buyer's remorse" after the job acceptance as well as risk of a counteroffer from the previous employer. We also recommend other types of contact that might include connecting the new hire via social media sharing recent company communication, presentations, press releases, and significant announcements. Special events (charity, lectures, presentations, etc.) during the prestart period are potential opportunities to constructively introduce new employees to an organization's culture.

Other ways to connect the new hire are to encourage the hiring manager to introduce the new hire to his team at lunch or a coffee meeting prior to day one. This is especially important if the new hire is a team leader and if the position has been vacant for a long time. Technology can also be a beneficial addition to the prestart experience. By delivering information about the organization's vision, values, and culture through a website or portal, employers can get their new hires who are hungry for information key messages that will ultimately help them get up to speed quicker. The following is a checklist of topics to be considered for the prestart website:

- A welcome message from the president or another senior leader
- Organizational overview, history, "story"
- Meeting with the executive team (bios and organization structure)
- Vision, mission, core values
- Organization culture
- Employee messages (testimonials)
- Benefits overview/highlights
- Philanthropic work, social events
- What to expect the first day
- Brief survey to collect personal preferences such as office setup, furniture, supplies, and business cards, credit cards, travel profile

You also may want to tap into your employment page and company website for ideas of what to include in this portal. Figure 28.3 depicts the Connect the Dots (CTD) onboarding model.

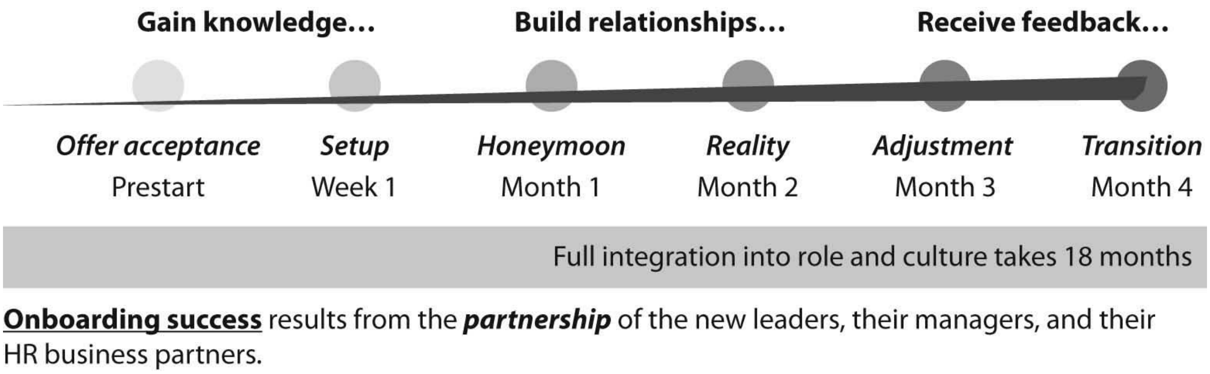

Figure 28.3 CTD Onboarding Model

New hires expect that companies will be prepared for them when they arrive and that they will experience a formal transition period. New leaders do not want to sit through a day's worth of presentations about ID badges, attendance policies, and benefits administration. Your new hires need the information that will help them understand your organization's business processes, culture, and people. By offering a structured onboarding program, organizations have an advantage when competing for top talent.

When your organization creates a best-practice onboarding experience, it says to your new hires:

- We are expecting you.
- We care about you and are excited about your decision to join us.
- We want to help you be successful.
- We are focused on you.

It is important to tie the experience to your culture and your story. Again, make the connection to drive engagement of your new hires in each of the generational groups.

One other consideration for leveraging the prestart period is to prepare the team. It is important for the organization to get the team ready to help onboard the new hire and make sure everyone understands his or her role in the experience. The hiring manager will typically drive this, and the recruiter and HR partner play a key role by helping communicate how the selection process was done and why the decision was made to bring on this candidate. If job responsibilities need to be shifted, it is important to communicate those before the new person starts. Also, if one or more internal candidates were considered and not selected for the role and will remain on the team of the new hire, the recruiter, hiring manager, and HR business partner can then provide context and help these individuals make the transition smooth and productive.

Best Practice Onboarding Roles

As with any business process, creating and executing the proper roles and responsibilities is a critical step in the onboarding program. The key roles may vary slightly by organization, function, level, and individual; however, it is vital that each role be defined and communicated. Figure 28.4 depicts the interplay of the new hire with the hiring manager and HR partner.

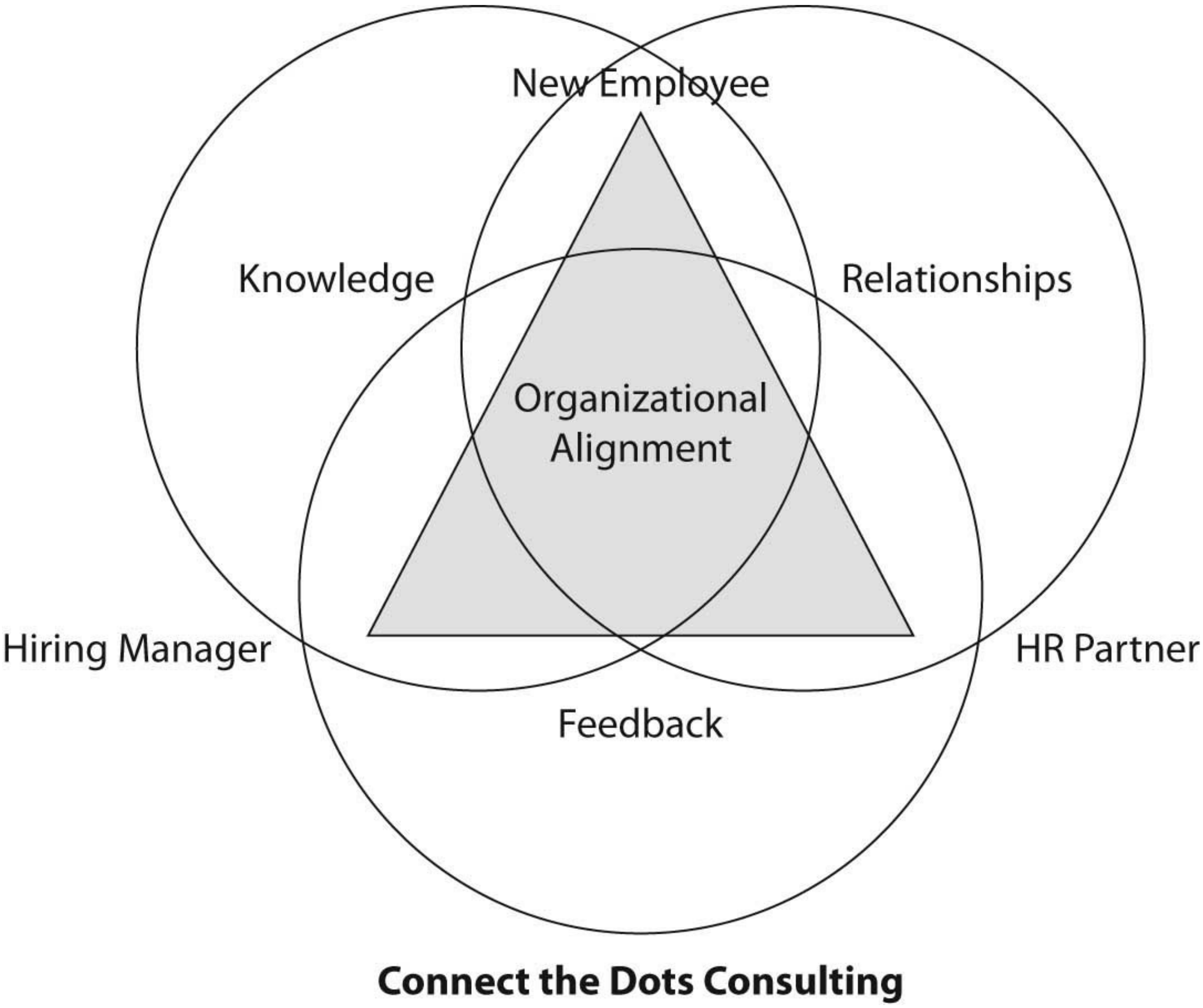

Figure 28.4 Best-Practice Roles Model

The best-practice onboarding roles include:

Hiring Manager
- Serves as the primary information source regarding the role expectations and direction of new hires and their team.
- Acts as the sounding board for new associates and provides feedback and direction as they learn about their role and the organization.
- Shares insight and advice about the new hire's team and key stakeholders.
- Collaborates with the HR partner to ensure alignment of their actions throughout the new hire's onboarding process.

Talent Acquisition
- Begins new hire engagement during the recruitment and interview process.
- Represents the organization's culture and presents a realistic job preview.
- Manages the prestart process in coordination with the hiring manager and HR partner.

HR Partner
- Serves as the onboarding process guide for the new hire and functions as a confidante.
- Facilitates the establishment of onboarding objectives, early wins, and the stakeholder analysis.
- Shares key documents and related insights with the new hire.
- Focuses on creating role clarity throughout the new hire's onboarding process.
- Facilitates the team alignment process for new leaders.
- Formally and informally gathers feedback regarding the new hire's effectiveness and assists in identifying and implementing remedies for problems and developmental actions.

New Hire

- Is responsible for managing his or her onboarding process. While the hiring manager and HR partner will provide support and guidance, the new hire drives the overall process.
- Takes the initiative to work with his hiring manager to set and understand onboarding objectives, identify targeted onboarding meetings, and facilitate other transitioning activities.
- Reaches out to process partners when assistance is needed and is receptive to feedback and direction from those partners.
- Maintains a willingness to develop and demonstrate a deep understanding of, and respect for, the organization, its people, and its practices.

Coach
- Is the accountability partner for accomplishing onboarding objectives.
- Provides a "safe" place for new hires to strategize, debrief, and practice.
- Assists in interpreting feedback.
- Provides resources for development.

Mentor/Buddy
- Acts as a cultural guide.
- Gives context and feedback about being successful inside the culture.
- Provides operational or technical training.
- Acts as resource and confidante for new hire.

Administrative (for new leaders)
- Takes care of logistics such as office setup, phone, and computer.
- Schedules key stakeholder and networking meetings.
- Makes travel arrangements.
- Provides insight into the culture, as well as the management style of the hiring manager.
- Schedules and monitors the monthly meetings between the new executive and the hiring manager.

Others
- Other HR roles are sometimes defined separately depending on the organization (recruiter, relocation coordinator, benefits analyst).
- IT can also have specific roles in onboarding for setup and training (PC support, telecommunications).

Onboarding Audiences

One of the most important questions that you must ask as you build or rebuild your onboarding experience is, "Who is my audience?" And then, "What do members of this audience need?" Sometimes we get puzzled looks when we ask clients this question, and most times we get the same response to the first question, "It's all our new hires." This broad definition of your onboarding audience will not serve you well because you will find that each unique group has its own onboarding needs and expectations, so if your experience feels like a one-size-fits-all solution, it will in fact result in no-size-fits-all and most likely will not engage your new hires at the level required.

Thinking about your business needs, and your employment brand, your talent management strategy will help flesh out your prospective onboarding audiences.

Here are ideas for ways to divide your new hire groups and address their specific onboarding needs:

- Externally recruited, experienced new hires
- Internally developed or promoted associates
- New leaders
- Individual contributors
- New to management
- College recruits
- Interns
- Contractors, "gig" (current electronic) economy workers
- Subject matter experts from outside your industry
- Highly specialized technical or difficult-to-recruit roles

Once you have determined your audience groups, it is always a good idea to collect intelligence from these existing groups in your organization so that you can incorporate their feedback into the design of your onboarding program. We suggest interviewing or surveying those populations who have been hired in the last one to three years. You get fresh feedback about how new hires are experiencing your organization and where the holes are in the onboarding process and experience. Including a cross-section of hiring managers and HR partners will get a more complete picture of where your strengths and opportunities lie.

The following are proven questions to ask to help you understand how your new hires are experiencing the organization when they come onboard:

Onboarding Feedback Questions for New Hires.

1. Describe the positives and negatives of your recruitment/selection process.
2. What two to three factors influenced your decision to join our organization?
3. Tell me about your role here. Is your role different from what you expected? If yes, how?
4. Describe your first week on the job. How did you spend your time? What were your experiences?
5. What role did your manager play during your onboarding?
6. What role did your recruiter play in your first weeks?
7. What role did your HR partner play during your onboarding?
8. What two to three challenges did you face in your first weeks and months on the job?
9. How did you go about understanding how to navigate the culture? How long did that take?
10. Who and/or what did you rely on to help you in your first weeks?
11. What do you think our organization should do to help new leaders and new associates successfully transition into the organization and the community?

Onboarding Is *Not* Orientation

As shown in the talent management cycle in Figure 28.2, onboarding encompasses a longer time and a series of events and experiences that are different from orientation. Many organizations still think that their orientation programs satisfy the need for onboarding. Making this assumption creates a false sense that the organization is giving its new associates the support and resources that they need to be successful in a week, a couple of days, or a few hours of orientation. Table 28.1 shows the key differences between a typical (less formal and inconsistent) onboarding experience with a purposeful (formal and evolved) one.

Typical	Purposeful
• Recruitment and onboarding not connected • "Drinking from a fire hose" to learn the organization, department, team, and role • Weeks of "Meet and Greets" without an overall plan • Unstructured onboarding plan • Opinions and perceptions formed without communicating to new leaders	• Warm hand-off, prestart activities, and Day One agenda • "Just-in-time" delivery of information with context • Meet and Greets with objectives and follow-up • Formal onboarding plan • Formal 360-degree early feedback

Table 28.1 Typical Versus Purposeful Onboarding

Develop on Day One

There is much research that supports an employee's likelihood to stay with an organization. Baby boomers are the group most associated with loyalty and tenure. The millennials want more than a job and a paycheck. They seek to be engaged for an opportunity to use and develop their skills. A 2007 study from the Wynnhurst Group finds that employee turnover within the first 45 days on the job is at 22 percent. Reducing this attrition is critical. Some companies have embraced the idea of starting development on Day One by having conversations with the new hires about how and where they might progress in the organization. This is especially important to the millennials who have the view that, "Everyone gets a trophy, and everyone gets promoted" and that their expectations are aligned with the expectations and talent needs of the organization. By including development objectives that surfaced during the selection phase, managers of new hires can show that they are aware of these needs and are interested in helping the new employee develop for future roles. Many organizations use formal assessment tools during the selection process to pinpoint specific development areas while others rely on their experience and talent acquisition skills to detect them. Each method is effective, and the information should be shared and validated by the new employee in order to get buy-in that these topics be included in onboarding.

Creating an Impactful Onboarding Plan

Often when organizations embark on building their onboarding programs, they "jump in" to create a solution that is often more like checklists than onboarding plans. While some checklists can be effective, we suggest using a type of a logistics checklist to address all the setup items, such as office, supplies, and technology tools that a new hire would need to get started. Checklists can also be effective job aids and have a place in training. However, if checklists are used in place of an onboarding plan, then the new associate will not have the full benefit of a comprehensive and customized onboarding experience.

Figure 28.5 is an example of an onboarding plan with onboarding objectives that focus the new hire on learning the organization, understanding the culture, building key relationships, and gaining the knowledge and experiences to be effective in the role. The objectives support learning the overall organization, the business unit or division, a functional area, and any individual objectives that the new person needs to be successful. The plan should contain standard objectives so that each new hire is exposed to the same information yet also contains customized objectives to address specific gaps or needs of the individual.

New Associate Onboarding Plan—sample
Month One
Focus : Role Clarity and Objectives

Onboarding Objectives	**Notes**	**√**
Understand (company) core competencies and processes		
Understand organization's language		
Clarify role		
Manage personal transition		
Understand company's core values, strategic plan, and direction **Add additional objectives here**		
Connecting with your manager Meet with HR partner to address questions/concerns Meet with manager to clarify role, discuss progress on objectives & early wins		
Engaging with your team and stakeholders Meet with team Meet with stakeholders Complete stakeholder analysis		

Figure 28.5 Sample Onboarding Plan

The Magic of Early Wins

A surefire way to engage new hires is to make them successful quickly. Especially for new leaders, the power of getting a few key things accomplished early and effectively is magical. The benefits are many for both the organization and the new hire. The new hire can do something productive in her first weeks on the job, and the organization can see her "in action." She is likely to be more engaged and motivated. This also boosts the confidence of the new person and of her hiring manager and team. The danger, however, is that a new employee does not want to come on too strong or too fast, thereby sabotaging any future impact by trying to do too much too fast. The trick is to plan and predict what "early wins" or "quick hits" a new hire can accomplish that will gain momentum and traction, without moving too fast and upsetting his ability to fit into the organization culture.

Table 28.2 is a template to support the planning and execution of these early wins. This exercise is essential for all new leaders and may not apply to all new individual contributor roles, but should be considered.

Deliverable and Timing (and Related Expectations)	How It Supports Larger (or Longer-Term) New Leader Performance Objective	Resources Required

Table 28.2 Early Wins Template

By creating specific objectives and tangible development goals, you will demonstrate to your new hires that you are committed to investing in them and want them to succeed. This creates high engagement that will cascade from your new leaders and individual contributors into their teams. Organizations that successfully implement comprehensive onboarding plans in their talent processes will create organizational and cultural alignment that is critical to being nimble and adaptable. Both new employees and tenured ones will be informed with consistent messaging and will understand the do's and don'ts of the culture.

Culture Eats Strategy for Breakfast

Most hiring managers and HR partners with whom we work tell us that when new hires are not successful in their organizations, they "just don't get it" or they were "a bad fit." These situations are often caused by the new hires not understanding or adapting to the organization's culture. The organization itself can be the cause and enable counterculture behaviors by trying to drive changes through its new employees. This is risky for several reasons, including that the organization has not readied the rest of the employees for change and new hires do not yet have the influence or context to implement changes. Another common mistake organizations make is to reinforce to the candidate during the selection process that everything he or she did at the previous organization is what they want him or her to do here. This can be particularly challenging for new leaders who are told to come in to "shake things up" or "turn the place around" without a thoughtful plan and buy-in from all the stakeholders. New leaders are especially vulnerable to being hired with a change mandate and then becoming frustrated if they are not able to accomplish what they had thought they were hired to do. Failure results 40 percent of the time in the first 18 months, and this sometimes means that the person leaves, but it can also mean that he stays with his role and team being suboptimized. People will “work around” him and that can actually cost the company more in time and money than if the person had simply left or been terminated. Adding cultural learning to your onboarding experience is vital and can mean the difference between success and failure.

Doing a culture audit is a first step in integrating culture learning into your onboarding experience. You want to represent your culture as it really is, not the aspirational vision that is framed on the wall or printed on a presentation deck. New hires need the benefit of transparent communication and a realistic view of the company’s strengths, opportunities, decision making, idea selling, and the rhythm of its operations.

Without the information about what it is really like to work in your organization and what behaviors are important for success, new employees will make missteps that could cost them credibility and ultimately make it difficult for them to onboard effectively. A culture audit surfaces those behaviors and norms and allows you to articulate them so that they can be communicated to your newest employees. It is noteworthy that the culture audit represents the people and parts of your organization with which your target audience interacts the most. We would suggest a leadership culture audit to surface the culture that your new leaders need to understand and others that apply to the various onboarding audiences.

Some suggested questions for a culture audit include:

1. How would you describe this company, as if you were describing a person (three words)? When you talk about where you work, what do you tell people?
2. What does the company value? What is important here? How do you know it is important?
3. What areas are dominant here—does marketing lead, or sales, or service? Why do you think so?
4. What are the “unwritten rules” for getting along in this organization? What do we always do? Never do?
5. How does the organization handle conflict? Good news? Bad news? Deadlines? Decision making? What are examples of ways that the company has handled crises?
6. Describe the process for effectively “selling” an idea. How can you influence the decision-making process?
7. Whom do you see as the primary customers? What happens when a key customer complains? To what extent does the company hold true to its expressed standards for dealing with its customers? Shareholders? Employees?
8. Think about the new employee who has been successful. What has he or she done that has been particularly successful? What is the “success profile” for a new employee?
9. Give examples of when a new employee’s onboarding has not gone well. Cite either a situation where someone has left the organization or has managed to regroup and salvage the situation.
10. What advice do you have for new employees?

Sometimes adjusting to the culture can be a challenge, and this is when HR partners can intervene to help new employees get back on track. Both short surveys and touch points can be introduced into your onboarding experience so that HR stays on top of potential problems. Simply asking if the new employee has connected with her manager and understands her onboarding plan will uncover problems. Another useful tactic is to do periodic check-ins with your new employees and ask questions about how they are finding the culture. Several powerful questions may be all that is needed to understand if they are struggling or thriving: “Is the culture what you expected?” “What has surprised you?” “Who has been the most helpful in your transition?” “What additional support do you need?”

Again, without a structured onboarding experience that ensures that these conversations are taking place, many new hires flounder and quickly become disengaged. Interestingly enough, the hiring manager is typically the first person to forget that the new hire is “new” and starts making assumptions about what or who he knows. By staying connected to the new hires through onboarding, hiring managers and HR partners play a significant role in keeping new hires aligned with the culture and engaged so that they become productive contributors.

Onboarding Feedback Sets the Stage for Success

The key differentiator for a successful onboarding experience is feedback. Early feedback is very different from performance feedback and is the third pillar of a best-practice onboarding program. Unfortunately, many organizations do not include formal feedback in their programs and, if they do, it is often more compliance and logistics, focused instead on how the new hires are integrating into their roles and the culture. As the workforce continues to bring in younger workers who are expecting to be part of the conversation on Day One, feedback as to how they are behaving, interacting, and fitting in is vital. Building feedback into most touch points during the entire onboarding experience and providing formal feedback with surveys at key intervals is crucial. For leaders, it is especially important that new hires receive formal feedback at about the 60-day mark to understand the early impressions people have about them. They may be driving change, new strategies, or bringing on new people, and if they are not getting feedback as to how they are being perceived as they drive these initiatives, they could encounter resistance.

Early feedback should be both available informally, in conversation about onboarding objectives and progress, as well as formally, in a survey or structured interviews. You will want to customize your feedback questions for your audiences and the type of data you wish to collect. Focus on early impressions on how new hires are adapting to your culture, how they see their role and its impact, and what the stakeholders are experiencing. Getting a complete picture of how a new hire is being perceived by the organization is the first important step in correcting any initial problems or concerns that could be damaging if they are ignored. Figure 28.6 is a model for onboarding feedback for the new hire's day 45 to 60 experience.

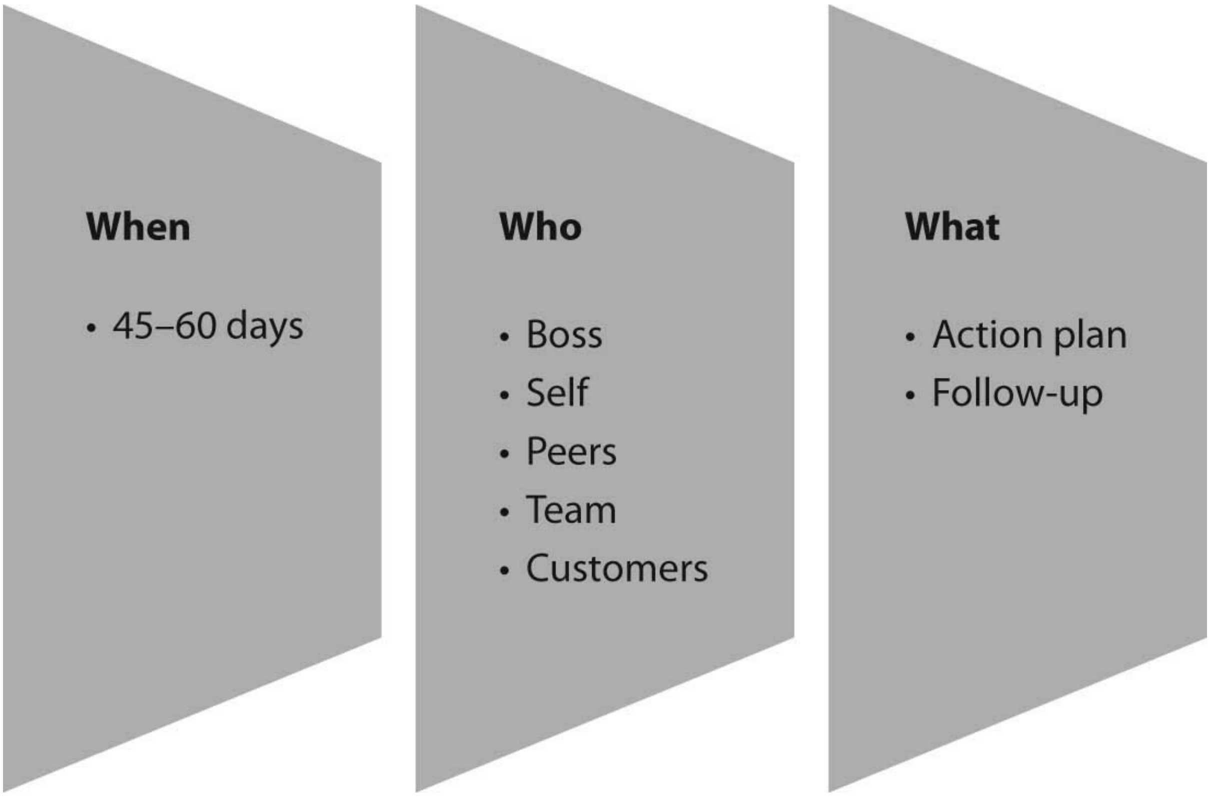

Figure 28.6 Model for Onboarding Feedback

Seven indicators of onboarding success that are best addressed in early feedback are:

1. Cultural fit
2. Personal transition
3. Peer relationships
4. Team assessment
5. Organizational knowledge
6. Business/market knowledge
7. Stakeholder perceptions

If onboarding challenges are surfaced and addressed in these areas, successful transition for your new hires is greatly increased. There is also evidence from the Aberdeen research group that ties engagement levels to onboarding feedback: "Organizations who have formal feedback processes in onboarding report that 81% of their employees rated themselves as highly engaged."[4]

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Chapter 29

Using Storytelling to Make Onboarding More Inspiring and Effective

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Why Getting Onboarding Right Is Important

The importance of getting onboarding right cannot be overstated. Done poorly, it leads to the new hire's initial enthusiasm turning into "buyer's remorse." It sets the tone and trajectory of employees' experience with their employer and plays a critical role in employee performance and engagement. Yet, many—if not most—employers do a mediocre job in onboarding new employees.

Research shows that new hires quickly decide whether they made the right choice, sometimes within the first week of employment. This would suggest that the "honeymoon period" for new hires is brief, with engagement declining after six months.

This speaks to the almost universal ineffectiveness of onboarding, with employers subjecting new hires to sink-or-swim environments with little effort made to help them feel welcome or get what they need in terms of guidance, training, or resources to succeed. The typical new hire experience sends the subliminal message, "Suck it up and learn to make the best of it," rather than, "We care about you and about doing our part to help you become successful."

While an effective onboarding program contains many components, this chapter discusses one component—storytelling. We focus on storytelling because it is such a powerful and yet underutilized vehicle for making onboarding more inspiring and effective, especially the new hire orientation component.

What Onboarding Should Accomplish

First, a brief examination of what an onboarding program should accomplish:

1. *Validate and reinforce your employee value proposition and employer brand:* The last thing you want is for new hires to have their initial experience contradict what your EVP and employer brand promised them. Your onboarding process needs to provide an experience that is scrupulously congruent with your explicit promise. Otherwise, your talented new hires will quickly get "buyer's remorse" as they realize that the reality of the work experience their new employer delivers is far different from the one promised.
2. *Communicate and demonstrate that you satisfy important drivers of employee engagement, especially those most important to A-list talent:* Thinking in terms of these drivers helps you add depth and precision to your onboarding process. While your EVP and employer brand provide a framework to examine whether your onboarding process delivers on your promise, you want to review both classic and current research on the drivers of employee engagement and examine whether your onboarding process satisfies these. You also want to make sure you communicate to new employees how their upcoming work experience will meet these critical needs by sharing examples and stories of this in action.
3. *Get employees up to speed quickly so they can provide the most value quickly:* At the simplest, most fundamental level, effective onboarding allows employees to start providing value as quickly as possible. This alone warrants upgrading an onboarding program. For instance, consider the difference

in economic value created by new employees who can perform on par with seasoned employees at three months versus six or twelve months. Consider the customer satisfaction implications of new hires not making customer-alienating mistakes from the moment they start interacting with customers.

4. *Set up new employees for success:* When employees get the training and support needed to become effective and productive as quickly as possible, it does not only impact the employees' value to their employer. It also has a profound effect on their emotional state, and therefore their level of satisfaction, motivation, and engagement, according to research by former Harvard Business School professor, Dr. Theresa Amabile. Dr. Amabile's research with knowledge workers, published in *The Progress Principle*[1] revealed engagement was highest during activities involving progress toward goals. Employees were most happy and alive when they were experiencing "the thrill of (small) victories."

   Dr. Amabile also found that employees were the least engaged when their ability to make progress or excel was thwarted by organizational or managerial obstacles. Thus, setting up employees for success doesn't just enable them to provide the most value; it also keeps motivation and morale high.
5. *Establish an emotional connection with the organization, its mission, and vision:* When onboarding—and especially new hire orientation—is administrive-centric with little attention being paid to the big picture, new employees quickly get the message that "this is just a job" and react accordingly. Conversely, if they believe, "I am part of something great, something that makes a difference in the world," they will bring greater passion and commitment to their work. Helping new hires form that emotional connection with the organization and its mission and vision is particularly important for millennials, as this demographic is especially interested in being part of an organization that is making a difference in the world. Thus employers need to continue communicating, "Here's how we make the world a better place," past the recruiting, interviewing, and hiring stages of the talent life cycle, and into the onboarding process.
6. *Make new employees feel welcomed and part of this community:* The poet David Whyte felt that humans were creatures of belonging. This holds true in the workplace. The more that employees feel a sense of community and that they are part of a team, the more bonded they feel to their employer. Thus effective onboarding creates the experience of being emotionally connected. This is again critically important with millennials, as they place an especially high priority on feeling connected with, and enjoying being with, their coworkers.
7. *Enculturate new hires:* For an organization to maintain its positive culture—especially when growing rapidly—ongoing communication about, "Who we are and how we do things here," is required. The designer of an effective orientation program described enculturation as one of the two objectives of his program: "We're very clear that the only two goals of our orientation program are to help new employees be successful and to help them understand our unique culture." While communicating, "Who we are and how we do things here," is especially important in the orientation program, this message needs to be reinforced throughout the whole onboarding process.

Why Storytelling?

Including stories in your communication with new hires enables you to make your onboarding process—and especially your orientation program—more inspiring, engaging, and informative. Here are some of the reasons why stories are such a potent communication vehicle and why they should play a major role in your onboarding process:

1. Stories are far more interesting than communication built on bullet points read off a PowerPoint slide and bland statements like, "In this company, we value employee input and encourage people to speak up." Thus they make any class or presentation more interesting and engaging.
2. Stories make ideas and concepts, such as cultural values, concrete, and therefore understandable. Thus they dramatically increase the listener's ability to make sense of your message and therefore its impact.
3. Stories are far more inspiring than exhortations, and thus they are a powerful vehicle for boosting morale and commitment. Saying, "We can do this!" is far less effective than sharing a story about how employees rallied in the past to help the company overcome a major challenge.
4. Stories provide both "inspiration and simulation," to quote authors Chip and Dan Heath in *Made to Stick: Why Some Ideas Survive and Others Die*.[2] The Heaths identify storytelling as one of the six ways to make ideas more "sticky"—that is, memorable. When you tell employees stories of their peers doing great things, performing with excellence, and overcoming challenges, you are not just inspiring them, but you are teaching. You are creating a virtual training video of what excellence looks and sounds like, so they can both replicate and innovate based on the behaviors described in the story.

This is one of the reasons why Ritz Carlton leaders share Wow Stories with employees in almost every daily huddle. Wow Stories are—not surprisingly—stories of employees "wowing" guests by going above and beyond expectations. These stories don't just inspire employees to raise their standards of what equals "wow" and to look for more opportunities to wow guests, but they provide tangible examples of what "wow" looks and sounds like. Sharing these kinds of stories increases employees' desire to perform with greatness and provides examples of how.

5. Stories make it easier to share your message with others. Stories are especially helpful in the early stages of onboarding when new hires are questioned about their new employer and what it is like working at this organization. Because stories are far easier to recall than bullet points or generic messages, new hires are more likely to share them with their friends and family. This doesn't just build your employer brand. It also strengthens the new hire's belief that she made the right choice. Being able to tell inspiring and impressive stories about her new employer is far more likely to get her support and encouragement about her choice than vague comments like, "It really seems like a good company so far." Stories give people something tangible to share.
6. Stories are more believable and persuasive than communication limited to take-away messages, bullet points, and concepts. To experience the difference, imagine being a new hire in orientation and the facilitator says, "In our company, we really value employee input and encourage people to speak up." The facilitator pauses for effect, and then goes on to the next bullet point description of company culture. How believable would you find that claim? While you hope it's true, nothing he said gave you evidence that his claim was, in fact, true. Nothing he said made you sit up and take notice.

Compare that unconvincing approach to having the facilitator make the above statement, and then follow it up with a story that illustrates his claim. Imagine he shared a story like the one about a college intern at Facebook who gave CEO Mark Zuckerberg feedback that he needed to improve his presentation skills. Not only did Zuckerberg take the feedback seriously and seek to improve in this area, but the bold intern got hired. How believable would the claim, "We really value employee input" be followed by *that* story?

Story Genres to Use in Onboarding

In this section, story genres you want to collect, curate, and share during onboarding are identified. These story genres can also be used in all kinds of employee communications designed to inspire, boost morale, reinforce company culture, coach, and celebrate employee excellence.

"How and Why We Began": Your Origin Story

As the name implies, your origin story tells how and why your organization came into being. Your origin story helps your new hires develop a deeper, more emotional connection with your organization, because it helps them understand why your organization exists, the problem it was created to solve, and the challenges its founders had to overcome. Your origin story helps humanize your founders and your organization, which makes them easier to bond with.

One great example of a compelling origin story comes from Steam Whistle Brewery, located in Toronto, Canada. The idea for Steam Whistle sprang from the ashes of a once successful brewery run by a beloved leader; the brewery had been purchased by a larger company and sold off for its assets. The former owner, who would take employees on an annual canoe trip, decided to resurrect this ritual a year after the company's demise. On the first night of the canoe trip, a handful of former employees stayed up until the wee hours swapping stories and dreams. At around 4 a.m., cofounder Greg Taylor and two other former managers decided they wanted to re-create the great brewery with the great culture that their mentor had instilled and the name The Three Fired Guys Brewery was born. "It was a Phoenix rising from the ashes kind of thing," notes Taylor.

When they sobered up, they still thought it was a great idea and started meeting regularly to strategize about making their dream a reality. On the strength of their quirky, defiant company name, they secured a $1 million bank loan and moved into a historic building near Toronto's financial district. They later changed their name to Steam Whistle, to capture the iconic feeling of release, relief, and celebration that comes after ending a hard day of work and getting the chance to kick back with a beer. From that conversation around a campfire, Steam Whistle has become the most successful independent craft brewer in Canada.

Imagine that you are a new hire going through Steam Whistle's orientation program and you hear that story. It makes your new job more exciting. It might make you feel a little like you too are a maverick because you're part of this company. This is part of what origin stories do. They are like those iconic Peterman catalog descriptions that can take an ordinary navy blue blazer and turn it into a garment that will induct you into a secret society of debonair, worldly, sophisticated players. Origin stories "romance" your employees.

"The Difference We Make in the World" Stories

Stories that relate the difference we make in the world illustrate the good your organization does through your products or services as well as your philanthropic and volunteer endeavors. These stories speak to the fundamental human need for meaning and purpose, a need that, when satisfied, makes for employees who are excited, inspired, and thankful for the work they do.

The need for meaning and purpose translates into employees wanting to know that they are part of something good and that their work makes a positive impact on the world. Believing they are part of an organization that contributes is even more important for millennials who were raised with admonishments like, "Make a difference," and "Make the world a better place."

Medtronics, maker of life-saving medical devices, excels at this. Each year, the company flies people whose lives were saved by one of their devices, such as a pacemaker, to the company headquarters to tell their story to an audience of employees. Imagine being in a new hire orientation and hearing several of these stories about people's lives being saved by the devices you are going to help produce. Even better, envision watching videos of customers telling their story. Think how much more excited you would be about your new job and how much more committed you would be to doing great work.

Your organization does not have to be saving lives or finding a cure for world hunger to inspire its employees. Regardless of your product or service, it has to be doing good in the world of your customers or else your organization would not still exist.

While appreciative customers are arguably the best source of "the difference we make in the world" stories, any employee can be a source of these, as well as stories that have been used in other aspects of corporate communication. So, for instance, at Texas Roadhouse, a chain of restaurants that early on recognized the importance of onboarding, new hires are shown a video that includes footage of the volunteer work employees do for Habitat For Humanity.

"Employees Matter" and "You Can Make a Difference Here" Stories

It is not enough for new hires to believe that their new employer makes a difference in the world. They need to know that they can make a difference. Feeling like a little cog in a great big wheel that does good is nowhere near as satisfying as feeling like a "player" in an organization that does good.

Thus you want to share stories that show new hires how individual employees have the opportunity to make a difference. Ericsson, a global telecom company, shows this through stories told by employees about their adventures providing assistance and relief to natural disaster victims through the company's Ericsson Response program which provides critical mobile communication services for humanitarian efforts. Since the launch of Ericsson Response in 2000 and its first major mission to Afghanistan, hundreds of Ericsson employees have supported over 40 humanitarian relief efforts in 30 countries. Think about being a new employee at Ericcson and how inspired you would be hearing these stories and knowing that you are part of an organization "with a heart." These stories also let you know that as an employee, you will get to make a powerful difference in the lives of people.

"Employees matter," and, "You make a difference," stories are music to the ears of talented millennials, who are especially hungry to make an impact where they work.

"Here's How We Roll" and "What It's Like Working Here" Stories

Stories demonstrating "How we roll" and "What it's like working here" enable you to reinforce your employer brand message during the onboarding process. These stories illustrate your culture's personality and provide guidance about standards of behavior and rules of engagement. These stories illustrate important cultural norms related to how people communicate, collaborate, express appreciation, and deal with conflict. These stories also illustrate to the new hire examples of the unique personality of the organization. The story shared earlier about the cheeky Facebook intern who told CEO Mark Zuckerberg he needed to improve as a speaker is a perfect example of a story that demonstrates a facet of Facebook's unique culture.

These stories act as behavioral orientation vehicles, literally helping orient new employees to the ways of the organization.

An example of such a story comes from Community Health Options, a nonprofit consumer operated and oriented (CO-OP) health insurance company located in Maine. The company's leadership team started the company with an intentional focus on creating a culture they would have liked to work in but had never found in their careers.

Imagine you are a new member services associate at CHO and hear this story in new hire orientation from your facilitator:

> One of the reasons why I love working here is that Community Health Options is so different from any other place I've worked. Let me give you an example of what I mean. One of leadership's commitments to all employees—in fact they have a signed document with these commitments—is, "We will not only expect you to share your ideas, but we will encourage you to do so."
>
> So when managers tell you that they want your input and that your voice matters, they really mean it. So for instance, a while back we had a new hire orientation debriefing session. In this session, we asked for feedback on both how we can improve the orientation program and how we can improve the member experience we provide. In this meeting, there was a member services associate who said that she was hesitant to give feedback or make suggestions because in other places she worked that could get you in trouble, even though it was obvious you were making the suggestion because you cared. The meeting leaders assured her that all of the leaders meant it when they said, "We really want, and need, your input."
>
> So assured, she talked about how she noticed a pattern when people called. If they called about a particular problem, it was often *after* they had called about another problem and had that problem solved. She went on to say that after noticing this pattern, she started saying, "Now, after this gets taken care of, the next step will be for us to get X taken care of. Rather than you having to call back in a month, let's take care of that right now, to save you from having to do that."
>
> As she is describing the situations, a supervisor takes notes so he can share this with other member service associates and let them know that this member services associate came up with this great idea. That's an example of what we mean by we're really serious when we say your input is extremely important to us.

Can you see how painting the picture of what happened makes the claim, "A great thing about working here is that you are encouraged and expected to share your ideas" more believable and emotionally engaging than to just state that point?

This story, like many you capture, can serve "double duty" in that it accomplishes more than one objective. It communicates what it's like working in this organization—that is, how we roll—and it illustrates leadership values input—you can make a difference here.

This genre should also include stories used in your employer branding to illustrate how the employee experience you deliver satisfies the key drivers of employee engagement, including the following other core drivers:

1. The opportunity to solve problems that matter.
2. The opportunity to add to one's skill portfolio.
3. The opportunity to develop leadership skills.
4. Career advancement opportunities.
5. Flexibility and work/life balance.
6. Clear, constructive, ongoing feedback.
7. The feeling of community and sense of belonging.

"You Can Be Proud to Work Here" Stories

While stories from the previous genres can also fit into this category if they make someone feel proud to be part of your organization, "you can be proud to work here" stories also convey:

1. *Leaders demonstrating high ethical standards.* This is especially important with millennials, who place a high premium on organizational and leadership integrity.
2. *Employees demonstrating high professional standards, brilliance, and elite levels of performance.* A-list talent wants to know they are working with other A-list talent. These stories reinforce the, "If you work here, you get to work with the best of the best" message that (hopefully) was part of your employer branding message that attracted them.

Brilliant and unique processes and ways of doing things set the organization apart. Since one of the goals of onboarding, and especially the orientation program, is to "resell" the new hires on their choice of working in your organization, these stories reinforce the message that,"Working here means you get to work in a world-class organization that does things right."

An example of a "you can be proud to work here" story that is also an example of a "the difference we make in the world" story and a "you make a difference" story because it contains both elements of the good the organization does and the influence a single employee can have comes from Community Health Options. Leaders at CHO regularly share with employees letters from customers—called "members"—that illustrate both the positive impact their organization makes on people's lives, and the impact employees make by providing a kindly, compassionate member experience.

Imagine being a new member services associate at Community Health Options with years of call-center experience, all too familiar with the emotionally draining and often thankless nature of call-center work. You are sitting in your new hire orientation class and hear this story:

> "Here's an example of the difference we make to our members and the difference *you* make. Here's a letter from a member, Sally Smith:
>
> I usually don't attend things like the focus group you put on, but I'm so excited about this insurance. Community Health Options is the most professional insurance company I've ever dealt with. It is a lot like the companies of thirty years ago, where customer service was a priority and each individual was treated with dignity. I am grateful to have it, and I recommend it to everyone.
>
> Last fall I had a knee replacement that I had been waiting twelve years for (my previous catastrophic insurance with another insurance company was too cost prohibitive to afford the surgery). While in the hospital, I worried that the surgery would not be completely covered and I would be stuck with a huge bill.
>
> On the day after surgery I received a call from a Health Options representative. I stopped breathing when she identified herself, thinking the inevitable was about to come true.
>
> Imagine my surprise when I learned that the call was to ask if I was okay and if I needed anything! I couldn't believe it and was so touched that I cried when I got off the phone.
>
> I recuperated from the surgery in half the time, and there is no question that CHO had a hand in that. That call put me so at ease that I was able to accomplish a lot more in a stress-free state.

Wouldn't hearing this story—and others like it—make you feel proud to be working for your new employer? Wouldn't it let you know that you are part of an organization that truly does make a difference in the world and that your job is an important one?

"You can be proud to work here" stories not only boost pride and communicate, "You made the right choice to work here," but they also create even more excitement and greater commitment to excellence—all-important objectives of your orientation program and overall onboarding process.

Cultural Values-in-Action Stories

One of the most important outcomes of your onboarding program, and especially your orientation program, is to help new hires understand your cultural and core values and how to embody them. Companies known for enviable, distinctive cultures—like Ritz Carlton, Southwest Airlines, and Zappos—use stories to communicate clearly what their culture and core values look and sound like in real life.

Because culture and core values are conceptual rather than concrete, tangible examples, they are easily open to interpretation. Because they are concepts, if not clarified and brought to life with examples and stories, they can easily become the verbal equivalent of the eye-roll-worthy "our core values platitude plaques" hanging on the walls of many organizations.

By using stories that illustrate, "This is who we are," "This is what our culture is like," and, "Here's what this core value means; what it looks and sounds like in the real world of work," you help new employees understand more clearly who you are, and how they can embody what sets you apart.

Imagine you are a new employee working at a hotel, attending your orientation class and the instructor says, "One of our core values is: 'I am always responsive to the expressed and unexpressed wishes and needs of our guests.'" (This is one of Ritz Carlton's core values.)

You might think, "Okay, that sounds like a good thing. I'll try to do that." While you will try to demonstrate that value in action—at least in the beginning—you're not sure what it means or whether your new employer really means it. If the instructor followed up with a genuine example or two of what that value looks and sounds like in action, you would have a clearer idea of what the instructor meant and how you were expected to act.

Now imagine you were told the following story, which comes from the Ritz Carlton. It is one of their many Wow stories used to make their core values and their brand promise crystal clear to employees. Picture the instructor saying the following:

> Here's an example of what we mean by being responsive to the expressed and unexpressed wishes and needs of our guests. "... At one of our properties, a little girl was playing by the pool when she lost her tooth. She didn't lose her tooth from falling down or being hit by some other little child at the resort. She was simply at that age when teeth fall out. When she looked at the tooth, she gasped in horror. Sobbing, she ran over to her mom and dad, who were enjoying the sun in their chaise lounges by the pool. Through her tears, she told them since they were not at home, the tooth fairy would not know that she lost her tooth, which meant no tooth fairy goodies. Her parents convinced her that the tooth fairy had powers far greater than the little girl could imagine. Later that day, the family entered the hotel to find the tooth fairy in the lobby.
>
> As you can imagine, since she was a Ritz Carlton tooth fairy, she had with her a bag of goodies for the delighted little girl. That's what we mean by delivering a Wow experience and being responsive to the expressed and unexpressed wishes and needs of our guests."

Cultural values-in-action stories are also powerful coaching tools for managers to use with new employees. Rather than just make claims like, "We really value thinking outside-the-box, " or, "We place a high value on treating each other with respect," managers need to have a repertoire of examples and stories that illustrate what these values look and sound like in their workplace. To use stories effectively in the onboarding process managers need to formally capture, organize, interpret, and present ideas to employees in ways that will be of most use to them in adapting to their new environment.

Capturing and Curating Stories

1. *Gather stories that have been told in various venues and channels and those that continue to be used and classify them:* These include stories that salespeople tell prospects, leadership shares with employees, your talent acquisition team shares with applicants, customer letters relay to employees, and stories reveal in annual reports and at organizational events. Identify those that get the strongest reaction, the ones that are most interesting and compelling. Then identify which genre or genres each story belongs to so that your onboarding team can choose stories to fit a particular message and desired effect.

   For instance, the Ritz Carlton tooth fairy story fits in multiple genres and therefore serves multiple purposes. An orientation instructor might use it as a teaching tool to illustrate the organization's core value of "anticipate unexpressed needs" along with its approach to alert, thoughtful customer service communicated in the mantra "Radar On, Antenna Up." It could also be used to communicate, "You're now working with the best of the best when it comes to customer service," to further instill pride in new hires. It can also be used with the intention of communicating, "We're not just providing a world-class guest experience here; we're also making lasting memories—and as an associate here, you have the chance to do that too."
2. *Ask employees at all levels about experiences that could be used for stories:* This approach can be a gold mine of great stories. It can also be arduous. Even with questions provided ahead of time as prompts, many people struggle to come up with specific experiences. Despite this reality, the stories you do end up getting can be extremely valuable. You would be wise to have skilled interviewers solicit these stories as they can use multiple follow-up approaches to help draw out important details. Examples of opening questions include:
   a. "What do you like best about working here?" Then follow up with, "Can you share some examples of that in action?" or, "Can you describe a time that happened and you were like 'wow ... that is so cool'?"
   b. "As you know, one of our core values is teamwork. When you think of teamwork here, what comes to mind?" This would be a broad opening question, which would then be followed up by questions like: "Can you describe a time that happened that stands out for you?" "What was it like to witness that?" "What specifically did you all do to make your team work so well?" "How was that team effort different from what you've experienced with other teams?" "What difference did you see it making in the outcome of the project?"
3. *Give employees cues so they can be on the lookout for future stories as they unfold:* It is easier to notice experiences that could be used as stories as they're happening if you know what to look for than it is to try to recall examples from the past. Having categories and cues already in mind helps one notice examples harder to identify in retrospect.

To provide employees with these cues, you should explain why you are gathering stories and give a few examples of what you are looking for. Then you would provide a list of what types of stories you are looking for. Your list should include: "Please be on the lookout for situations you experience that personify what makes this such a great and unique place to work. They don't have to be big, dramatic events; they could be simple things that set us apart like some little thing your supervisor does that lets you know he or she really cares about your well-being or how you witnessed a senior leader draw out a quiet employee in a meeting and help him feel comfortable speaking up. Little things like that can make great stories."

4. *Recognize that stories are everywhere and be on the lookout for them:* Debbie Peterson, marketing director of MetroStar Systems, a DC-based IT services and consulting firm, uses this approach rather than conducting formal interviews to capture stories that communicate what makes MetroStar Systems a great place to work. Rather than ask employees directly for stories, she is always tuned in to the things employees share in conversations (micromoments), noting what stories and experiences could be used as part of talent acquisition and development communication.
5. *Capture customer, client, or patient stories on video:* Research by Wharton Business School's Dr. Adam Grant shows that having customers tell their story is much more inspiring than having their story relayed second hand by a manager.
6. *Codify stories by using searchable keywords:* Besides using the story genres in this chapter as categories, include searchable keywords such as "teamwork," "integrity," "communication,"and "fun." This will allow anyone to use your database when searching for examples and stories that illustrate your values-in-action and characteristics of your culture.

Summary

By adding stories to your onboarding process, especially your new hire orientation, you not only create a more interesting and inspiring new hire experience, but you also communicate more clearly and compellingly:

- Your cultural values.
- Behavioral norms and expectations.
- Highly valued behaviors.
- Employee value proposition.
- Mission and vision.
- Engagement drivers you satisfy and how.

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Chapter 30

Using the Right Rewards Program to Help Your Talent Management Program Fuel Transformation

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JUST OVER HALF OF THE COMPANIES ON THE FORTUNE 500 HAVE DISAPPEARED SINCE the year 2000. Of the top five publicly traded companies ranked by market capitalization, only Microsoft was on the list in both 2011 and 2016. Organizations that don't transform with the times are at risk. Even after years of success, organizations cannot take continued success for granted. With every passing day, customers are presented with alternative solutions, new competitors emerge, and the labor market shifts with succeeding generations of workers. The "new economy" is just that—new.

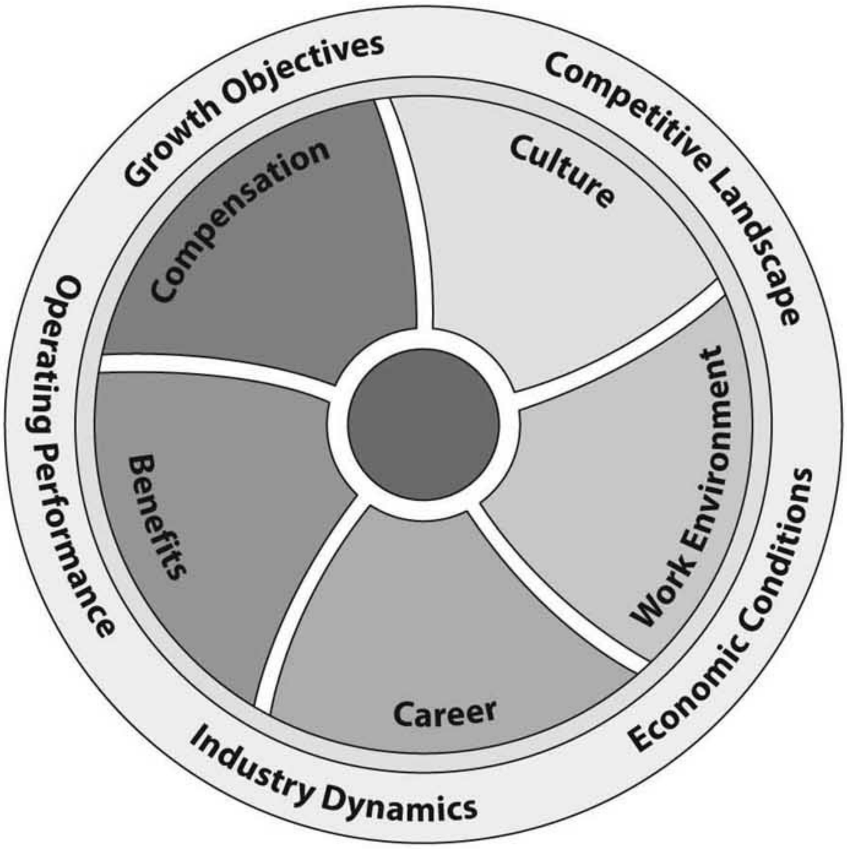
Organizations respond to these shifts in a variety of ways—often changing core strategy and tossing aside tried and true processes, overhauling the supply chain and rolling out new products and services. Following best practices, leaders engage employees, customers, and other stakeholders in the transformation process, devoting significant resources toward communication that fosters understanding and support.

In our experience even organizations that seem to have "done everything right" see transformations derail. Rewards, a common derailer, can catch leaders by surprise. While not the first thing leaders think of when changing strategy, rewards must remain aligned with the organization's focus and objectives. Therefore, when strategy changes, so too must rewards. If they don't, employees will receive a mixed message: "You want me to do X, but you're still rewarding me for doing Y." While some employees may trust management to do the right thing, many will simply follow their paycheck and not change until the way they are rewarded changes. It's not that rewards are necessarily the driving force behind successful transformations, but if well designed they can be an important tool supporting a tranformative talent management program.

Decisions about total rewards are never more important than when a company is embarking on a new strategic direction. That may sound obvious but at many organizations rewards policies are calcified, cumbersome, and often viewed as a necessary evil, rather than as an important critical element of a new business strategy. Why does the typical rewards program jeopardize a new strategy? What emerging innovations offer hope in using rewards to drive an organization's transformation? And how should leadership act differently in times of change to create greater value from rewards investments and overcome resistance to a transformation?

The Current State of Rewards

Total rewards represent a significant investment for most organizations. According to the Society for Human Resources Management, salaries alone account for 18 to 52 percent of operating budgets. This is *just* salary and does not include variable pay. It also doesn't include a number of other critical elements of rewards such as culture, work environment, career, and benefits. Together, these elements comprise the construct of total rewards (see Figure 30.1), framing what employers offer employees in exchange for their contributions and achievements. Like any significant investment, total rewards must align with the organization's strategic objectives. This means that when strategy changes, perhaps in response to the competitive landscape, industry dynamics, or economic conditions, it's likely that some degree of change will be appropriate in rewards. This doesn't mean that every element of total rewards will need to change, but leaders should pay attention to the relationship between culture, work environment, career, benefits, and compensation, the five elements of total rewards, in order to maximize the return on investment in rewards and also to ensure that the elements of rewards don't inadvertently work at cross purposes. Figure 30.1 depicts the total rewards model interplay of the five elements.



1. Culture
- Organization values/beliefs
- Organization reputation
- Quality of people (colleagues, leaders, subordinates)
- Participation
- Communication
- Recognition
- Social responsibility
- Feedback

2. Work Environment
- Challenge
- Autonomy
- Performance standards
- Work arrangements (schedule, site, space)

3. Career
- Career paths
- Career development
- Learning and development
- Performance management
- Advancement opportunities

4. Benefits
- Healthcare
- Retirement
- Paid time off
- Perquisites

5. Compensation
- Base pay
- Short-term incentives
- Long-term incentives
- Premium pay

Figure 30.1 Axiom Consulting Partners' Total Rewards Model

Not reviewing and recalibrating rewards programs to support transformational change is, at the very least, a missed opportunity. At the outset of a large-scale change, employees may be skeptical and quick to detect inconsistencies between what they are told and how they are rewarded. Many will "keep their heads down" and continue to behave in ways that earn them familiar rewards, even if that behavior is counter to a new strategy, until they see the relationship between a transformation and their own self-interest. Not reflecting new priorities through rewards will only make this behavior more likely.

A look at the traditional approach to rewards reveals how it inadvertently creates a barrier to change. Typically, the contract between employer and employee has been built on a rewards model that begins with a base salary and in most years assumes an increase. With this foundation, many organizations expend countless "management calories" determining individual salary increases with the objective of linking pay and performance while, at the same time, adhering to a prescribed budget. The processes for managing salary budgets are well known and they can provide effective financial controls. Unfortunately, they are also often complex, disliked by management and employees, and send mixed (or the wrong) messages about performance expectations. In fact, the common performance review process that drives salary increases rarely has the desired effect of improving employee performance even in normal times, much less in a time of change.

In a typical organization the process begins with finance and HR developing the annual salary increase budget (usually between 3 and 4 percent). At the same time, managers and employees invest a significant amount of time and effort in creating, collecting, reviewing, and revising performance assessments. Assessments lead to performance ratings, and these ratings are further modified and negotiated to conform to merit matrices and in some cases forced ratings distributions that have little to do with the actual achievements and contributions of the employees who were assessed. In principle, top performers get larger increases. But in practice, the difference between the increases received by top performers relative to other employees is often negligible.

Consider an employee with an annual salary of $50,000. An average performer getting a 3 percent increase would get $1,500. Divided by 26 pay periods, that's about $58 per pay period before taxes, or $43 after taxes. A top performer at the same salary who receives a 4.5 percent increase would receive an annual base salary increase of $2,250, an annual pretax premium of only $750—less than $29 more per pay period than his or her counterpart, or about $22 after taxes. How much incremental effort or change should your organization expect from a top employee earning an additional $22 per paycheck? How will employees receive your messages describing a brave new world when they are paid the old-fashioned way? Table 30.1 illustrates these numbers.

	Average Performer	Top Performer	Difference
Annual salary	$50,000	$50,000	—
% Increase	3.0%	4.5%	1.5%
Annual increase	$1,500	$2,250	$750
Increase per pay period	$58	$87	$29
After-tax pay period increase	~$43	~$65	$22

Table 30.1 The Typical Approach to Paying for Performance

If base pay doesn't support change and drive performance, can this gap be closed through variable pay? Absolutely! But this won't happen unless variable pay evolves significantly from what exists in most organizations and addresses the following three flaws:

1. *Limited eligibility:* Many employers continue to cling to the premise that variable pay should apply only to managerial or higher-level positions. Taking this perspective ignores a highly effective tool for linking pay and performance and suggests that only more senior positions can make a difference, which is probably not the message to communicate during a transformation.
2. *Insignificant variance:* The most common approach for determining incentive awards is to begin with last year's award. Adjustments are most often applied for company performance (affordability) and—to a lesser extent—for individual or team performance. This dampens the variability of variable pay, making it more like "deferred salary" or worse, an entitlement. (Sales compensation plans are a notable exception.)
3. *Irrelevant metrics:* A common mistake in incentive plan design is to use the same metrics that fund a plan as distribution metrics. High-level metrics such as earnings per share (EPS) are terrific because they align plan participants with shareholders, but most employees don't fully understand the concept, much less do they set goals that directly impact EPS. In a particularly egregious case of metric

irrelevance, a large manufacturing concern's shop floor incentive plan payout was more sensitive to foreign currency fluctuations than it was to improvements in operational efficiency.

Rewards That Support Transformation

A time of transformation is the perfect opportunity to assess the alignment between rewards programs, strategic intent, and the type of contributions the employer most needs from its employees. Key messages and strategic objectives should be reflected (or at least not contradicted) in the underpinnings of rewards programs, or employees will sense that something is not right.

For example, an entrepreneurial organization that prides itself on autonomous and hard-to-find creative employees might do well to focus investment dollars on virtual-workspace technology, highly leveraged and performance-driven pay programs, and consumer-directed health plans that put more decisions in the hands of employees. Conversely, investing in noncontributory healthcare coverage and defined benefit retirement programs or limiting variable pay eligibility and flexible schedules could become turnoffs that drive the turnover the company is trying to avoid.

Organizations that look to their employees to drive transformation through higher levels of individual and collective achievement are increasingly disenchanted by their ability to reward these achievements through traditional salary increase and variable pay programs. A promising alternative for these organizations is achievement-based compensation (ABC). What is unique about this solution is that it rewards employees at the appropriate time for both short-term results *and* capability growth. It underscores the significance of change, making clear that those employees whose achievements contribute to making change a success will be rewarded appropriately (and significantly) for doing so.

One key feature of ABC is the prominence of and broad eligibility for variable pay. Achievement-based compensation is predicated on making more employees eligible for variable pay programs and, where possible, offering meaningful incentive award opportunities. Simple programs make it possible for employers to reward their employees for their achievements in one performance period without increasing fixed compensation costs for the next. Not only do variable pay programs link compensation investments to organization results, but they have the potential to deliver more visible, meaningful rewards that create a better line of sight between transformation and rewards for plan participants.

Managers appreciate that instead of relying on an arbitrary schedule, in the ABC model base salaries are increased coincident with when employees demonstrate materially higher levels of capability that enable them to create more value. This won't happen precisely every 12 months, but when significant growth is demonstrated, rewards should be significant as well—potentially two to three times the traditional merit increase. Increases of this nature resemble promotional raises and reward recipients for contributing to a new strategy at a higher level.

Because base salary increases build upon each other, it is important that they be the result of growth in capability and not delivered as a reward for short-term performance, as is often the case ("Great job this year, Pat! Your reward is a big raise."). So, while excellent short-term performance is essential, it is best rewarded through variable pay that directly links pay and performance as described above.

What makes this approach different? First is a change in participation. Applying this approach will result in a much smaller number of people receiving salary adjustments every year. Second, those who do receive increases will receive more noticeable increases than in the past. Also, for variable pay to have its intended effect—and to deliver competitive rewards in an environment where most employees don't receive annual salary increases—variable pay program eligibility will need to be extended and target award amounts may need to increase.

An achievement-based compensation model that rewards increases in competency and provides significant incentives for delivering performance results has three powerful advantages:

1. More effective communication about the nature of performance expectations. Rewards are used explicitly to reinforce messages about the ways employees can contribute to improve the company's performance.
2. Better allocation of compensation investments by aligning reward vehicles with the nature of achievements being rewarded.
3. More productive use of manager, employee, and human resources time in managing, rewarding, and increasing performance. Instead of engaging in an annual budget creation and adherence exercise, the people involved in the process will have a clear line of sight into the linkage between strategic objectives, employee achievements, and the rewards for these contributions.

Rewards as a Change Accelerator

Being a leader in an organization going through a major transformation is no easy task. Neither is being a follower. While at some level, employees may recognize that "change is the only constant in life," they are less likely to find solace in this quote from the Greek philosopher Heraclitus than they are to hope that the things they count on at work won't change.

It is the job of leadership to communicate clearly and honestly the reasons for and nature of the transformation. McKinsey's 2016 global survey on organizational transformation reports that the failure to engage frontline employees and their managers is a major factor in failed transformations. Among transformations that fail to engage either line managers or frontline employees, only 3 percent of respondents report success.

Successful engagement is accomplished through in-person and virtual messaging. Speeches, webcasts, e-mail, and most importantly, one-on-one conversations between employees and their supervisors are the "go-to's" for communicating change. Often overlooked during transformation, rewards programs are uniquely powerful communications tools as they represent the quintessential opportunity for employers to "put their money where their mouth is." Doing so requires thinking ahead to identify the rewards implications of transformation. While this is not always the first thing leaders think about, doing so can be relatively straightforward and begins by considering three questions that are in the forefront of employees' minds as they internalize messages about change:

1. What is important now? Are priorities different from what they used to be?
2. What is my role in the change? What do *I* have to do?
3. What's in it for me if I contribute to the change?

The first step in determining the degree to which rewards are aligned to support change is to assess the degree to which the answers to the three questions above have changed. This need not be a drawn-out exercise; simply summarize the answers to the questions and their rewards implications in two columns (see Table 30.2).

	FROM (STARTUP)	TO (ESTABLISHED)
Drivers of Value	**Revenue. Innovation.**	**Focus. Differentiation.**
What's important?	Entrepreneurialism. "All-hands-on-deck" attitude.	Profitability. Prioritization.
Rewards implications	"Free form" salaries, based on individual needs and negotiation. Year-end bonuses based on available capital, with little or no individual performance-based differentiation.	Salaries closely tied to labor market; pay more aggressively for most critical jobs. Annual incentive plans funded based on preestablished profitability metrics.
What do I have to do?	Work hard. Help out. Come up with new ideas.	Build and apply specific capabilities to meet established objectives.
Rewards implications	Investments in culture are prominent; work environment is subordinate to the work itself.	Investments in career development are prominent; work environment may be more deliberate.
What's in it for me?	Share in the rewards of what we are building together.	Focus your efforts where they'll make the biggest difference.
Rewards implications	All-employee equity grants or cash profit sharing reinforce teamwork. Pay may not be clearly linked to individual contributions and vary significantly from one period to the next.	Individual achievements aligned with strategic priorities are highly valued. Promotions and salary increases reward significant increases in desired capabilities and results.

Table 30.2 An Approach For Determining Whether Rewards are Aligned with Targeted Organization Changes

While this example may seem straightforward, consider that changes in rewards often lag organizational evolution and changes in strategy. It is common for leaders to change strategy and even clearly communicate the answers to the three key questions, without ensuring that their rewards programs are aligned. This is often nothing more than benign neglect. It is not that leaders don't see the connections and the importance of alignment—it's just that these issues come to light only when a change effort is launched.

So a declared move toward product segmentation and profitable growth may be flummoxed by executional challenges when employees continue well-intended, if misaligned, efforts to increase revenues of all forms, supporting less profitable products and services because they've never known the difference. This situation is aggravated when employees realize that though they have been asked to change priorities, behaviors, and performance, their rewards are still hardwired to the prior strategy. Therefore, *say*ing profit is important and *pay*ing for revenue will lead rational actors to focus on the top line over the bottom line. Likewise, making the point that the organization will require new capabilities, but not investing the time or resources for employees to develop these capabilities, can create frustration and even resentment.

Similar examples exist in organizations that seek experienced talent but invest minimally in healthcare and retirement benefits, or espouse creative problem solving while sticking to rigid reporting hierarchies, office-based workspaces, and even restrictive dress codes. Transformation is an "all in" game, and to succeed organizations and their leaders must hold up a mirror and ask if their words match their actions. If the answer is no, then leaders should move swiftly to adapt their organizations' rewards to enable transformation.

A useful model for thinking about rewards in a time of transition is how rewards will (1) align, (2) equip, and (3) sustain the workforce during the difficult work that lies ahead.

Alignment is the work of translating the strategy into increasingly detailed answers to these broader questions. Here the first instances of, "Oh, well, if *that's* what this means, then I'm not so sure" begin appearing and must be addressed.

Aligning changes in rewards with changes in strategy can take many forms. For many organizations, this begins by reviewing performance metrics. Sometimes, a simple change in metrics (for example from revenue growth to increasing share in target markets) sends the right message without requiring a complete overhaul of rewards program designs. More significant changes in strategy may require rethinking long-term or short-term incentive eligibility or perhaps the introduction of entirely new rewards solutions such as the introduction of sabbaticals or the elimination of vacation policies. Regardless, be explicit about the links between changes in work and changes in rewards and engage in consistent, candid two-way conversations so that teams keep their eyes on the prize.

Equipping the workforce is about closing the gaps between the organization's aspirations for the future and what employees can achieve today. The talent development component of the total rewards model often takes on greater importance during a transformation and should be presented as a valuable incentive for employees to move in a new direction. Many employees will view and value training and new skills as a reward onto itself. According to Gallup's 2016 report, "How Millennials Want to Work and Live," 87 percent of millennials rate "professional or career growth and development opportunities" as important to them in a job. Furthermore, opportunities to learn and grow are one of the top three factors in retaining millennials. Beyond that, an employee's new capabilities resulting from training are also an enabler of future rewards, a means to a more promising future for employees and for their employers as well.

While capability-building opportunities may be exciting to many employees, others may see them as an additional burden above and beyond their daily jobs. If this is the case, it is important that leaders consistently communicate the value of career development. They should take the opportunity to highlight what it looks like when someone builds and applies a new skill set.

Sustaining change is difficult but absolutely necessary. Even if you have redesigned your rewards program to be in perfect alignment with the objectives of a transformation, the work isn't done until behaviors and results change. The temptation for employees and managers to return to old habits that worked in the past may be strong, but not changing should not be rewarded. During a transformation, everyone is personally accountable for change, and while carrots usually work better than sticks, be prepared to withhold rewards if necessary.

Using rewards to drive an organizational transformation is not a one-and-done exercise. Changing habits takes time; even small signs of successful changes in behavior should be encouraged and recognized. It is also wise to accept that listeners will first hear what they want to hear, not necessarily what you're trying to communicate. When employees recognize, "So, this is what this means for me," it will be essential that rewards programs reinforce critical messages.

Organizations undergoing change have many opportunities to leverage rewards to support the change and demonstrate to employees the personal benefits of transformation. For example, new, more rewarding career paths will support faster development of the high-priority capabilities an organization needs in order to compete. Employees who demonstrate new capabilities will be rewarded with a meaningful base pay increase. Managers who embrace a new rewards program will see their administrative burden lightened and the performance of their team improve. Changes in healthcare plans that make it easier to enroll and obtain care can help employees focus on driving change within the organization rather than deal with the distracting red tape of a complicated healthcare benefits plan.

Conclusion

Don't let your rewards program hold you back from a successful transformation. Rewards in all their forms are the most powerful way to show employees *what* is important and *how* they are expected to contribute to the organization's success. And while rewards won't, on their own, guarantee the success of a transformation, it's guaranteed that misaligned rewards will make change more difficult. After all, while each employee may contribute to a transformation in different ways or to differing degrees, everyone has the potential to participate in a rewards program. Every employee has the potential to be either a barrier to or an enabler of change.

Organizations should ask: Are we using rewards in all their forms like any other investment, as a way of driving the changes we need to compete successfully in markets and industries that are being transformed? Rewards should not be an excuse for inertia. They should be the fuel that powers a transformation.

Tapping into that energy will require leaders to objectively examine their current rewards program and uncover the points of friction. It will take innovative new approaches to rewards that accelerate the pace at which employees get on board with a new strategy. And finally, it calls for managers and leaders who can apply the energy of powerful new rewards to direct everyone toward the organization's future goals.

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Chapter 31

Using a Total Rewards Strategy to Support Your Talent Management Program

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A TOTAL REWARDS STRATEGY MUST BE AN INTEGRAL PART OF YOUR TALENT MANAGEMENT program because it drives several key processes including acquisition, enhancement, advancement, retention, recognition, goal incentives, and performance. This chapter addresses the following questions:

- Why is a total rewards strategy essential for creating a continuing competitive business advantage?
- What elements of a total rewards program are essential for consideration today?
- How does an organization design a total rewards program?

Why Is a Total Rewards Strategy Essential for Creating a Continuing Competitive Business Advantage?

Creating a competitive business advantage starts with recognizing the role that total rewards play in organizations today. This role has emerged as a result of both external and internal influences. Among the external influences is the changing employment model. The evolving employment model is driven not by one dominant perspective, as in the past—a perspective typically founded on the employer's capacity to draw from a deep labor pool and rely on long-tenured workers who are happy to have jobs—but by multiple perspectives. Now the employer perspective recognizes an emerging shortage of labor skills, knowledge, and experience (in part, driven by the aging of the baby boomer population in mature economies) in a less company-loyal, more geographically mobile workforce. The employee perspective is marked by changing cultural and generational attitudes, needs, and wants when it comes to work, driven by a newfound awareness of the levels of pay and availability of benefits as communicated through social media and Internet outlets that previously did not exist. The cost perspective is that of increasing employment costs and their sustainability—driven largely by the ever-inflating cost of healthcare (primarily) and other benefits, along with the competitive cost of paying for skilled talent in a tightening global job market.

Although operating in an increasingly global marketplace, employers are often recruiting from a smaller qualified workforce because statistics show that the level and quantity of technical education are not keeping pace with demand. At the same time, there is loss of experienced workers to retirement—a phenomenon that will only accelerate as the baby boomer generation moves out of the workforce en masse in the coming years, especially in the United States, where healthcare reform provides baby boomers with more freedom to elect an early retirement (whereas prior to healthcare reform, workers were working to age 65 for Medicare because few employers offered preretirement health insurance). This results in a loss of institutional knowledge that cannot be easily replaced simply by adding new hires. Not only do less experienced workers need more on-the-job training, forcing organizations to invest in more energy and resources, but today's and tomorrow's employees also question a one-company career while demanding a competitive rewards package.

The mismatch between available talent and available skills is evident in the findings from the collaboration of Mercer and the World Economic Forum in 2013, which indicated that 34 percent of employers are unable to fill available jobs, whereas 205 million people are unemployed across the globe. On closer examination in North America, human resources professionals cited attracting and retaining the "right" talent as the number-one rewards challenge in both the 2008 and 2014 "Total Rewards Snapshot Surveys" conducted by Mercer. Labor dynamics suggest that employers will continue to face the daunting task of engaging a diverse new workforce that grows its own institutional knowledge, and stays with the organization.

As employers face the external influences and identify appropriate responses to the changing employment rules, uneven labor supply and demand, and retiring baby boomers, they are left with one other external challenge—uneven business cycles. The inability to predict the ups and downs in our global economy can wreak havoc in trying to sustain a business advantage over competitors as unemployment declines and the economy continues to grow slowly. At the same time, establishing a total rewards framework can be the factor that sustains the competitive advantage when the external pressures increase. In addition, the total rewards framework also will provide support when internal challenges test an organization's ability to manage the workforce and respond to employees. Even if an organization can withstand the pressures from the outside, responding to its workforce and providing an environment that promotes productivity, health, and satisfaction can be extremely difficult. The ability to manage employee expectations starts with a transparent total rewards philosophy that speaks to the specific daily challenges in the job that each employee deals with.

Myriad employee perspectives of this diverse workforce are illustrated in Mercer's 2011 "What's Working" global employee survey of workers' perceptions and attitudes toward their organizations. Unlike prior "What's Working" surveys, the 2011 study showed that employee engagement is eroding. The global economic downturn that started in 2008 led to layoffs, cuts in pay and benefits, reduced job security, and more limited training and advancement opportunities. As organizations made smaller investments in their workforces, over one-third of employees globally have responded that they are seriously considering leaving their employers at the present time. Equally alarming, about 20 to 25 percent of employees in the 17 surveyed markets have no definite plans to leave but are apathetic and even more negative about work than employees who are considering an exit. Given these developments, employers are faced with a critical question: How do you redefine the employee value proposition to meet today's business requirements and employee needs?

Among the challenges organizations face as they redefine the employee value proposition is engaging the so-called generation Y, or millennials (ages 18 to 29), in a manner that provides purpose. In Mercer's "What's Working" survey, an astonishing contradiction was presented: the youngest members of the global workforce tended to be more satisfied with both their organizations and their jobs compared with the overall workforce and are more likely to recommend their organizations as good places to work. At the same time, these workers, especially those under age 25, are far more likely to be seriously considering leaving their organizations at the present time, as revealed in the scores, which were 10 points higher for workers under age 25 than for the overall workforce. Another interesting insight from Mercer's survey is that the youngest members of the global workforce are more likely today to view work similarly to their same-age counterparts in other countries than they are to view work like their older colleagues in the same country. For the first time, data suggest that workforce views and attitudes may be changing globally—at least among the youngest members of the workforce.

Balancing the attitudes, wants, and needs of a diverse employee population adds complexity and cost to workforce management. In fact, assessing the sustainability of current costs for employers points disturbingly to the escalating price of providing total rewards. For example, ongoing volatility in pension plan funded status and in the markets results in fluctuating plan expenses, making budgeting a difficult and frustrating endeavor for plan sponsors. Mercer's 2012–2013 "Spotlight on Benefits" report indicates a 34-percent decrease in organizations offering a defined benefit plan to their employees in the last five years because of risk-averse employers concerned with pension plans posing material balance sheet risks for U.S. companies. These remaining plans tend to be more poorly funded and are therefore open to greater balance sheet risks. (Mercer defines a "risky" plan as having a funded status of less than 75 percent and pension liability greater than 40 percent of market capitalization.) Plan sponsors continue to explore risk-management strategies ranging from retaining and managing the pension risk to transferring the risk either to employees (via a cash-out) or to insurers (via a buy-out). U.S. organizations seek solutions to pension plan volatility because the alternative points to the very real risk employment costs pose to an organizations sustained financial success.

As organizations attempt to balance a desired workforce with one that is affordable, the employee value proposition becomes increasingly important so that employers can articulate the competitive advantage they want to build among their organizations. Eroding employee loyalty, widespread apathy, generational differences, and cost constraints are the reasons why employers not only should review their total rewards framework now but also should raise several fundamental questions as to what employers should consider when they take the plunge to develop a total rewards program.

What Elements of a Total Rewards Program Are Essential for Consideration Today?

Total rewards are not a new concept, but the role that they are playing within organizations is evolving. Employees are no longer considering their jobs as long-time commitments but rather as experiences within their "portfolio." Employees are also taking on greater accountability for managing their own careers, health, and wealth, even if they do not know how. As employers think about how to respond to these changes, the following questions are key considerations for the foundation of a total rewards program:

- What are effective attraction, engagement, and retention policies?
- What is the most effective way to allocate limited resources?
- What is the best way to balance employee preferences with cost constraints?
- What is the impact of creating a build-versus-buy approach to talent?
- Should all employees be governed by the same rewards philosophy?
- What role should recognition plans play?
- How should reward plan effectiveness be measured?

While the answers to these questions are unique to each organization, there are common considerations that organizations can think through to identify what is best for them. Let's start with workforce segmentation.

Businesses require a strategic solution for managing their workforces—one that encompasses the realities of generations and geographies, emerging nontraditional staffing models, and pressure to produce return on human capital investments. Such a strategy begins with the identification of unique workforce segments. There are four important aspects of segmentation to consider:

- *Business life cycle*. A company's position on the business life-cycle curve: whether it is experiencing rapid, moderate, or declining growth. A young startup will have different characteristics from those of a mature firm in a flat market.
- *Business design.* A company's business model: how the entity is organized and the types of competencies required to create value. There may be one overall design or different emphases for units or divisions within the company.
- *Geography.* A company's geographic breadth and complexity, as well as its need for cross-border interconnectedness and mobility: mature versus emerging markets.
- *Brand reputation.* The extent to which a company's brand is an asset or liability in attracting and retaining both customers and employees. Once the portfolio of workforce segments is identified, it is important to assess the contribution that each segment makes to organization success. Segments may include:
    - *Performance drivers.* Segments that create value for the organization, such as marketing in consumer products companies, research scientists in pharmaceutical organizations, and logistics in an emerging market for a globally expanding manufacturing firm.
    - *Performance enablers.* Segments that support value creation, such as staff (human resources, accounting, supply chain, etc.) and workers who play an important role in facilitating the efficiency of performance drivers (such as information technology in the creation of electronic medical records).
    - *Legacy drivers.* Segments (skill sets) that historically created value for the organization but no longer drive competitive advantage. For example, production and distribution functions in a media organization may become legacy drivers as content is increasingly delivered online.

It is critical to emphasize that those different job families, geographies, and skill sets are not universally categorized as performance drivers, performance enablers, or legacy drivers because their role in value creation depends on organization and even business-unit profit models. A good example would be a single group of information technology (IT) professionals who might play different roles in value creation for different organizations. How? To a buyer of IT outsourcing services that relies on IT to support its operations, those IT professionals function as performance enablers, but to an IT outsourcing vendor that sells its services, they are performance drivers. In other words, workforce segmentation requires an organization-specific view of value creation. As organizations consider the role that each workforce segment plays and, more specifically, the role that each job plays, they can categorize jobs by their criticality and scarcity, as shown in Figure 31.1.

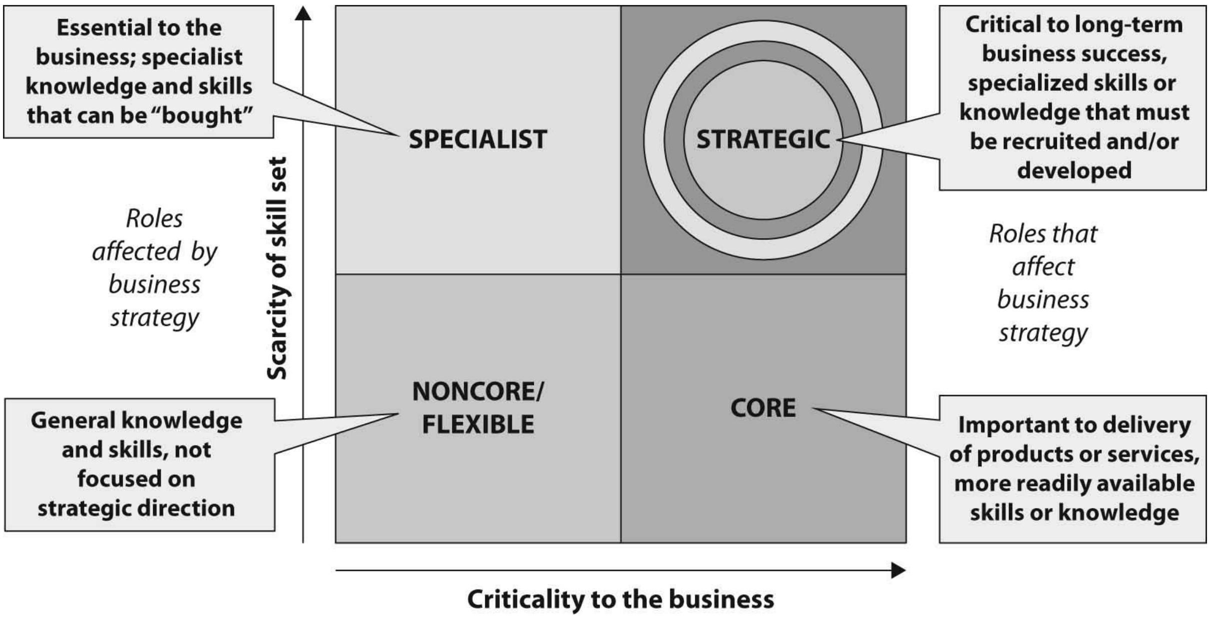


Figure 31.1 Workforce Segmentation Driven by Strategic Importance

The rewards challenge for each workforce segment is often different. For performance drivers, the value proposition must succeed in attracting, engaging, and retaining these value creators through an optimal mix of base pay, incentive compensation, benefits, and career-development offerings. For performance enablers, the rewards mix must ensure that these workers continue to effectively support the business. And for legacy drivers, appropriate rewards depend on the value of retaining their institutional knowledge.

Complex organizations are multifaceted compilations of workforce segments. If an organization does not rigorously identify and qualify its workforce populations, it cannot act on differences in relative value contribution or design programs that reflect varying workforce needs and performance goals. Workforce segmentation is required to ensure that total rewards resources can be intentionally allocated strategically across the organization to promote the greatest opportunity for success.

Organizations also need to think beyond workforce segmentation, especially as they consider the cost implications of the segments. Once an organization can identify what the workforce segments are, the question becomes, what is the most affordable way to staff these roles? Adding to the cost dilemma is the fact that for most businesses—especially those operating in a global context—workforce requirements vary over time and location. For example, the traditional model of permanent, full-time employees is not flexible or cost efficient in addressing periods of under- or overcapacity of staff. Cost and flexibility pressures, changing employee demands, and the challenges employers face in attracting, engaging, and motivating talent that will create value for the organization promote the growth of alternative employment arrangements.

The workforce of the future demands a suite of employment arrangements that meets employer, employee, external, and cost concerns. Traditional long-term, permanent, full-time positions will always have a role delivering organizational success, but employers and employees will see an expanded range of work arrangements from long term to contingent. Long-term employment is typically traditional, permanent, full, or part-time work. The visible shift in long-term arrangements is the demand for flexible work plans. Contingent employment is a more varied mix of nonlinear multicompany work experiences, including short-term employment that may be structured as temporary/full or part time, temporary-to-hire, specific-project employment structured as temporary/full or part time, and contractor arrangements such as consultants and the self-employed. Including contingent workers in an organization's staffing model allows it to optimize the number and cost of permanent headcount while adding resources as required to meet fluctuating capacity demands.

Long-term employment with flexible work options can include flextime, telecommuting, job sharing, compressed workweek, sabbaticals, and generally a greater level of employee autonomy in scheduling and delivering work. Growth of flexible work plans speaks to what employees want and need and how employers are rising to the challenge. Mercer's 2014 "Total Rewards Snapshot Survey" reveals that flexible hours and telecommuting are the most prevalent flexible work options, with 76 percent of surveyed organizations allowing professional employees the ability to flextime and 70 percent offering professional employees the option to telecommute. These percentages are up in the last 15 years because surveys on workplace policies and practices conducted by Mercer over the years have revealed that only about 30 percent of surveyed companies had telecommuting arrangements in 1999.

Taking flexible one step further, the employment of a temporary workforce is an accepted practice among consumer goods employers in North America and Latin America. Mercer's 2013 "Workforce Composition Metrics Regional Report for the Americas Consumer Goods Industry" showed that, on average, temporary workers represent 6 percent of the total workforce (permanent and temporary). When broken down between North America and Latin America, the averages are 4 and 7 percent, respectively. Besides the variations by region, Mercer's report also indicated that across the Americas, the percentage of temporary workers is highest in companies with more than 500 employees and less than US$350 million in revenue. The conclusion that can be drawn is that employers with limited funds are employing a larger temporary workforce when headcount is a requirement to the business operation as a means to mitigate its overall cost of total rewards to its full-time populations.

As employers consider the use of a temporary workforce to mitigate the cost of total rewards, evidence from Accenture's 2013 article titled, "The Rise of the Extended Workforce," indicates that outsourcing contracts with Fortune 100 companies have more than doubled since 2000, with about 20 percent of global organizations using outsourced or off-shored workers. What is interesting about this shift is that the profile of the temporary worker is changing from primarily low skilled and uneducated to increasingly high skilled, well educated, and globally accessible. The recent emergence of online independent contractor talent platforms enables companies to access "talent in the cloud," and currently, more than 1 million workers make up this workforce. The contingent-workforce phenomenon will modify such traditional patterns as those seen, for example, in career paths where long-term career growth is predicated on a typically linear progression from job A to jobs B, C, and ultimately D. Contingent-workforce careers tend to move nonlinearly from job A to modified work arrangements (lateral jobs B1 and then B2, for example) before moving to next-level jobs C or D. Ultimately, organizations will have to recognize this portfolio of experience and respond to different views of career paths—that of permanent, long-term workers who see a career path within the firm and contingent workers who see a career path moving from firm to firm.

Increasing demands for alternative employment arrangements such as flexible work plans and contingent staffing, along with the changing view of "career path," require organizations to rethink workforce management for the future. Understanding the workforce segments within an organization, as well as the best approach to staffing, is a key ingredient to creating a competitive business advantage and building a total rewards program that will resonate with the workforce.

How Does an Organization Design a Total Rewards Program?

Strategic allocation of total rewards means taking both a holistic (recognizing all the tools in a rewards tool kit) and a customized (using the right tool for the right job) approach. Mercer's 2014 "Total Rewards Survey" examines the practices organizations are using to align compensation, benefits, training, and career development with today's business priorities. This survey found that while more than half (55 percent) of organizations made a significant change to their total rewards strategy in the past three years, less than one-third (32 percent) said that their total rewards and business strategies fully align.

A balanced approach to total rewards—one that acknowledges the needs of the business, the changing environment, the aspirations and demographics of employees, the local culture, and the current and future cost constraints—is both essential and challenging. Approaching total rewards begins with a top-down review of the business strategy and the human capital strategy; identifying the implications that each of these has on the total rewards philosophy (see Figure 31.2).

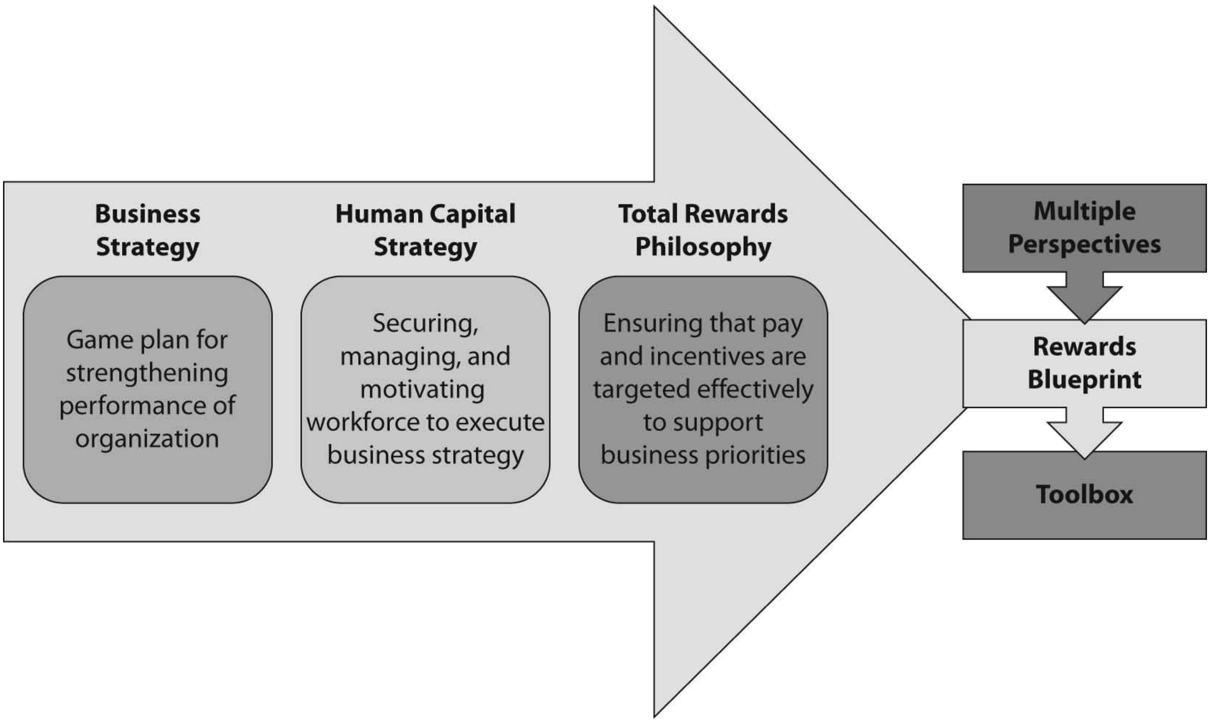


Figure 31.2 Developing Total Rewards Philosophy

Considerable strides have been made in shifting both employee and employer focus from disparate pay components to a holistic total rewards approach that encompasses:

- *Compensation.* This includes base pay, short- and long-term incentives, guaranteed allowances, and financial recognition awards.
- *Benefits.* This includes health and other group benefits, retirement plans, life insurance, disability, and accident coverage.
- *Careers.* This includes training and development, stretch assignments and other career opportunities, and formal career and succession planning.
- *Work life.* This includes programs such as flexible working arrangements, telecommuting, dependent care, wellness programs, commuter programs, and other nonfinancial recognition.

Among these components, the value of the specific reward elements to employees varies by country. In Mercer's 2011 "What's Working" global employee survey of workers' perceptions and attitudes toward their organizations, base pay ranked as the most important reward element in mature markets, for example, the United States, United Kingdom, and Germany, whereas career advancement ranked as the most important element in emerging markets, for example, Brazil, China, and India, where advancement meets both employees' personal and financial needs. A ranking of the top six reward elements is provided in Figure 31.3.

Rank	China	India	UK	Germany	Brazil	USA
1	Career advancement	Career advancement	Base pay	Base pay	Career advancement	Base pay
2	Base pay	Base pay	Type of work	Type of work	Base pay	Retirement savings or pension plan
3	Supplemental retirement savings plan	Training opportunities	Bonus/other incentives	Bonus/other incentives	Training opportunities	Type of work
4	Training opportunities	Type of work	Retirement savings or pension	Flexible work schedule	Type of work	Low healthcare costs
5	Bonus/other incentives	Working for respectable organization	Flexible work schedule	Working for respectable organization	Health ins. with broad coverage	Bonus/other incentives
6	Supplemental medical ins. coverage	Bonus/other incentives	Paid time off	Training opportunities	Flexible work schedule	Working for respectable organization

Figure 31.3 Employee Perception of Reward Varies by Country

Clearly, a universal or "one-company" holistic approach can lead to over- or underrewarding specific workforce segments—or, worse, inappropriately rewarding all segments. Strategic total rewards mean that organizations must consider the external influences on their workforces, such as the countries in which they operate, to provide rewards that will be meaningful to each of their respective geographic segments.

However, as mentioned previously, geography is not the sole differentiator among segments. Other unique factors specific to an organization require employers to make tactical decisions in customizing programs. A good example is the case of the global energy company that identified multiple business models: in one, profit was generated through a premium, long-term position in global exploration, and in another, profit was generated through low-margin, intensely competitive, local retail market-share transactions. This organization needed to distinguish two workforce segments and build tailored total rewards approaches. One design, relating to the firm's global organization, involved paying above-market salaries for "hot" skills; building talent from within the organization through a total rewards program that emphasized career-based rewards, nondifferentiated corporate performance awards, a focus on learning and development; and centralized decision making. The other approach, keyed to the local retail end of the business, involved paying market price for talent (and "buying" it on the open market rather than "building" it from within the organization), spot rewards and differentiated performance awards, less emphasis on learning and development, and entrepreneurial decision making. While this may seem like a mix-and-match, one-from-column-A, two-from-column-B approach to total rewards, it reflects the need for a holistic yet customized total rewards strategy that aligns with different business models. Segmentation helps organizations to understand where customization of total rewards will drive business performance, but organizations cannot forget that in the new employment reality, there are likely to be multiple work arrangements across and/or even within workforce segments. This dimension further refines how and where a company should target rewards spent to attract, engage, and retain diverse employee populations.

Mercer's observations from its 2008 and 2014 "Total Rewards Snapshot Survey" revealed that in general, more organizations are using some form of internal and/or external analysis to establish the facts about their total rewards strategy. Consistent with Mercer's 2008 results, affordability is the most prevalent internal analysis used, and one in four participants says that it is highly effective. However, in comparison with the 2008 results, the prevalence of using external analyses has increased, along with the method. In 2008, the most prevalent external analysis used was to assess common rewards practices among other companies, and in 2014, it used external benchmarking of a specific peer group.

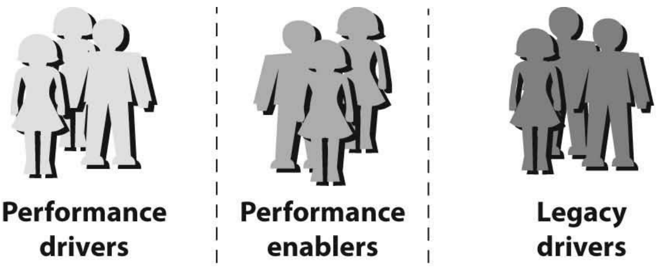
Typically, there are four perspectives an organization should seek to understand when it wants to identify reward strategies that will be meaningful to employees while aligning with the broader business strategy:

1. *Employer perspective.* Conducting discussions (i.e., interviews) with key organization leaders is important for understanding how the reward programs should be structured to secure the desired workforce outcomes.

2. *Employee perspective.* There are two suggested approaches for understanding the value an employee places on his or her reward package. A more qualitative approach is to conduct focus groups with select employees. The focus groups should be thoughtfully planned so that employees can speak freely, and they should be structured to represent specific homogeneous workforce segments. Organizing the focus groups allows for a comparison to be made among the segments. The alternative approach is more quantitative, although both approaches can be conducted to provide some of the informal employee commentary behind the numerical analysis. The quantitative approach involves conducting a conjoint analysis, which is a type of survey where employees can rank reward elements by their importance and their derived satisfaction. This type of analysis can be meaningful to organizations with limited budgets seeking to understand where to allocate their dollars and seeking to understand differences in how workforce segments value their rewards.
3. *External perspective.* Benchmarking compensation and benefits is an important activity in understanding the value of the rewards package being offered to employees. The external perspective provides insight into how the rewards stack up against those of other similar companies and can provide insight on how to weight the employer and employee perspectives when considering changes to make to the rewards program. For example, if benchmarking of compensation reveals that employees are underpaid compared with the market and employees have been complaining about their pay, then the employees have a legitimate gripe. Adjusting salaries may be the key to refining the total rewards package. However, if benchmarking reveals that employees are paid competitively with their pay market and employees have been complaining about pay, a deeper issue needs to be addressed. What components of the pay are employees unhappy with? What information do they have that leads them to think that they are underpaid? Are there requirements of the job for which employees think they should be paid more?
4. *Internal cost perspective.* At the end of the day, organizations want to do right by their employees. However, they need to balance what they offer with what they can afford. Typical internal cost analysis involves examining several metrics, including but not limited to payroll cost as a percent of revenue, benefit cost as a percent of revenue, benefit costs per capita, year-over-year trends of payroll and benefit costs, retirement plan contributions and expenses reported on accounting disclosures, any incentive plan budgeting and payout analysis, and so on. The metrics that an organization uses need to be meaningful to the organization's determination of what is affordable and sustainable in the long run.

Each of these four perspectives will provide insight into the potential success of the total rewards program, but it is the combination of these perspectives that will provide the direction for an organization to make decisions related to the elements within the total rewards package.

All the elements of total rewards play a role. The question is where to place the greatest emphasis. For example, long-term, permanent performance drivers should be engaged by career opportunity, offered through access to quality training and development, leading-edge projects, international assignments, and so on. Contrast this with long-term, permanent legacy drivers. Unfortunately, these employees operate in an area of the business that is no longer a growth engine or a source of competitive advantage. The organization should not invest in career opportunities or promote career opportunities as a means of motivating or retaining these employees. Emphasis on short-term incentives that reap the remaining benefits of legacy market share or transferred institutional knowledge is a better and more realistic allocation of funds. For contingent workers, current cash is often the driving factor. This is particularly true for traditionalist or baby boomer employees, who may consider cash the primary reason to remain in the workforce because they may be unable to retire in the lifestyle they desire. Contingent gen X and millennial employees may be more forward-looking. For performance drivers in this group, the opportunity for potential full-time employment holds significant appeal (see Figure 31.4).



Employment Arrangement		Permanent	Contingent	Permanent
Long Term		• Career • Alternate work arrangements	• Base pay • Benefits	• Short-term incentives • Alternate work arrangements
Contingent	• Traditionalists • Baby boomers	• Cash • Benefits	• Cash • Benefits	• Cash
	• Generation X • Millennials	• Cash • Potential full-time employment		• Short-term incentives

Figure 31.4 Fluctuating Capacity Requirements

Addressing alternative employment arrangements and unique workforce segments requires significantly more sophisticated total rewards strategies than those of the past. Today's strategies need to reflect the desired outcomes. For some workforce segments, the need may be more focused on attraction, whereas others have a greater focus on retention—yet all organizations require a productive and engaged workforce. In building a total rewards strategy, one needs to think about the rewards components and how they work together while considering the value of those components as revealed by multiple perspectives (e.g., employer, employee, cost, and external) to understand the impact on the desired outcomes. Thinking holistically, considering all rewards elements, drawing on multiple perspectives, and considering outcomes before design constitute a best-practice approach to laying the groundwork for guiding principles to serve as the total rewards framework.

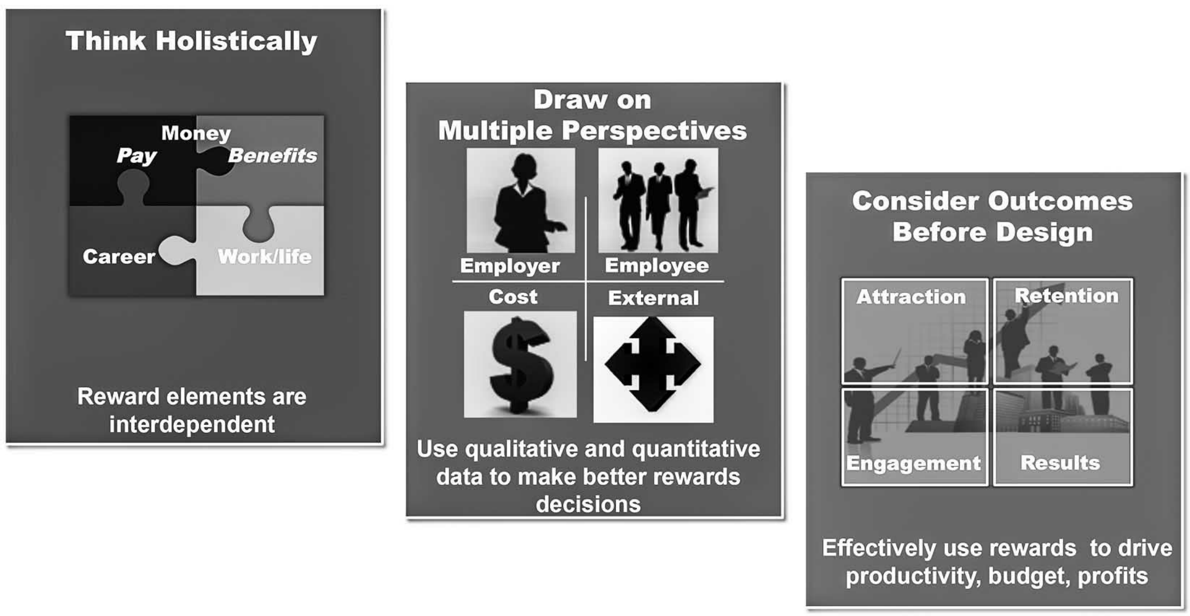


Figure 31.5 Guiding Principles for Making Program Specific Reward Decisions

Executing strategic, customized total rewards means coming to grips with institutional attitudes and operations that need to change—and change again. One of the most widespread struggles is addressing organizational views of equity and fairness. By definition, segmented, differentiated total rewards programs treat people differently—some perhaps better than others. And although organizations often vary rewards in response to market pressures, skill shortages, and so on, a strategy of explicit differentiation-based employment arrangement and/or value creation is a difficult approach for organizations to adopt and communicate. Developing an overarching total rewards framework is most easily accomplished when considering the following global principles:

1. The degree of segmentation within the organization (e.g., geography, tenure, level).
2. The role of each rewards element for each segment (e.g., attraction, engagement, retention).
3. The appropriate external comparator groups (e.g., industry, geography, ownership).
4. The consistent application of the rewards strategy (internal equity) (i.e., overarching principles are the same but the details vary by segment).
5. The competitive positioning of each element in the pay mix (i.e., at what percentile will base pay be targeted against various markets?).
6. The degree of performance orientation (e.g., amount of pay at risk and performance against various metrics).
7. The affordability and sustainability of the rewards programs (i.e., ability to manage current and future costs).
8. The framework for decision making and cascade within the organization (i.e., governance).
9. The approach and vehicles for communicating rewards (e.g., e-mails, portals, and social media).
10. The extent of the administration needed to maintain programs (i.e., amount of automation and manager self-service).
11. The monitoring process and measures to evaluate the ongoing success of the programs (e.g., employee sensing, behaviors, and actions; leadership input; return-on-investment analyses).

After defining the organization's total rewards principles, the organization then can assess its current state against these principles. A gap analysis can be conducted to assess misalignments between existing rewards programs and the desired overarching principle. Then a blueprint can be created that defines the extent of the change management required to migrate to the desired state. When an organization seeks change, it may be a difficult undertaking. Systems, processes, and people must adapt; compensation-management systems may need to accommodate multiple base pay and incentive programs, compensation, training, and development; recruiting may need to make trade-offs across historically siloed budgets; and managers will need to handle more challenging conversations about an individual's compensation, benefits, and career. Once an organization has changed, it must be prepared to change again. Business strategies evolve continuously. If the total rewards strategy does not keep pace, costly misalignments can occur, hindering business progress and diminishing return on investment. Maintaining the total rewards principles and frequently reviewing their appropriateness, effectiveness, and applicability are suggested preventive measures to avoid an established total rewards program from becoming disconnected from the internal desires (both employer and employee) and external market and ultimately failing to sustain the organization's competitive position. Overcoming these challenges requires leadership support, pragmatic segmentation (recognizing meaningful differences in workforce segments), and comprehensive implementation and communication change management with an eye on both today's and tomorrow's changes.

Summary

The workforce of the future is taking shape now because the new employment model continues to evolve to address changing employer, employee, and cost dynamics. More and more, today's and tomorrow's employees will be rethinking traditional employment arrangements and taking a nonlinear, multicompany, individually driven attitude toward career success. Organizations need to take steps to better understand both their existing workforce and the future talent they seek to employ inclusive of the cultural and generational differences, the emerging alternative work arrangements such employees, demands, and the relative value creation of unique workforce segments in the business models they advance: best fit versus best practice. A global workforce of the future is one that demands that an employer invest its thought leadership, time, and precious employment budget in building a customized total rewards program that considers fairness and sustainability—but most important, engagement. An employer willing to make such an investment is one that understands how a total rewards program can evolve with the times and create a sustained competitive business advantage.

Chapter 32

Aligning Total Compensation Programs with Organization Values, Strategy, and Talent Management Processes

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THIS CHAPTER PROVIDES A NEW WAY TO LOOK AT COMPENSATION. ALTHOUGH IT IS always important to know *how much* you should pay, it is actually more important to know *how* you should pay. Although there are many approaches and best practices in the marketplace, this chapter examines how to align total compensation and rewards programs with the strategy and core values of your organization. The principles developed do not tell you how to develop a plan with a particular set of features but rather shows you how to ensure that the plans align with what your organization needs today and in the future. What is most important is that there are different approaches appropriate to different situations.

Although we like the comfort of knowing that our programs have proven themselves somewhere else, implementing someone else's program frequently fails. Often there are unique aspects of one's organization that limit the effectiveness of programs developed by others. This means that every organization must craft a rewards strategy that reflects its own mission and character. This is the best way to extract the greatest value from compensation expenditures and create the competitive advantages needed to be successful in the marketplace. It is just that simple—and that important.

What Is a Total Rewards Strategy?

To answer the question of what a total rewards strategy is, let's examine each word in this phrase. *Rewards* are those things that people receive for doing something in their workplace that is meaningful and valuable to them. It could be as simple as showing up to work and getting a salary. The effort is to show up, and the salary is the reward. It could be working on a new-product design, seeing it become successful for the company, and receiving accolades, bonuses, stock awards, or celebrations commensurate with the achievement. This could include working hard to handle a particularly high level of work volume or projects and getting most things correct and in on time. You know what you have accomplished, your boss values these results, your customers appreciate what you have done, and your colleagues are glad you are on the team. You feel rewarded if you have received something that you value for accomplishing these things.

By *total*, we mean everything that is associated with the rewards. In most cases, the rewards have an extrinsic source—they are given to you for what you have done. They also may be felt internally (or intrinsically) because at some point in your work experience, someone truly appreciated what you did that was similar to what you just accomplished. You know that this work is good, and you know that others value what you did. These external sources could be a salary and an increase in pay; an incentive award; a commission payout; a promotion; a stock award; a trophy, plaque, or certificate; or public or private comments of appreciation by someone you respect. You may work for a company that provides benefits important to you. These benefits may share the costs of services (e.g., healthcare insurance), provide income protection (e.g., life and disability insurance), enable you to accumulate savings [e.g., 401(k) or deferred compensation], or take advantage of the company's services (e.g., discounts on company products or use of concierge services). Based on your performance, you could receive greater authority, a bigger budget, broader job responsibilities, a new job title, or increased stature within the organization. There are many types of rewards, and they come in a wide variety of forms, timing, and experiences. Thus, by *total rewards*, we mean those things that an individual may receive for doing the work that is needed by the organization.

A *strategy* is a plan, playbook, or conceptual framework that compels action. A business strategy serves to focus people on taking critical action that will accomplish a set of future goals or objectives. Strategies focus on adding value or meeting a need. Whatever the focus, its goal should be to create some type of competitive advantage. A strategy guides decisions and actions and helps to focus goal setting, policies, practices, behaviors, and investments. Strategies help the organization to achieve what it needs to be successful.

In summary, a *total rewards strategy* is a meaningful statement that defines the purpose, requirements, and desired features of how an organization rewards its people for doing the things it needs to do to fulfill its mission and achieve its long-term objectives. A total rewards strategy should meet the following criteria:

- Reinforce the core mission, values (or culture), and critical success factors of the organization.
- Define what are (or will be) the key elements needed to create a strong competitive advantage in the marketplace for talent.
- Provide important clarity and guidance to decision makers so that they can assess the effectiveness of current programs and practices, determine what is needed to improve their effectiveness, and answer why a particular program is designed or functions in a particular manner. The words that create and communicate a total rewards strategy are only important if they influence decisions and actions and reflect a common framework for how employee pay is handled throughout the organization. The result of a successful total rewards strategy is the efficient allocation of employee pay to the people who help, and will help, the organization succeed.

What Does a Rewards Strategy Include?

A rewards strategy is always linked to one or more of the components of the organization's business plan. These components include market, environment, and regulatory and other factors that have an impact, or will, on the organization. The following three elements of a rewards strategy statement must be tied to these components.

1. Establishing the Context

Establishing the context for a total rewards philosophy is the first step in developing one. A rewards context contains the organization's mission, key success factors and strategies, and core values. Here is an example from Google:

> Our employees, who have named themselves Googlers, are everything. Google is organized around the ability to attract and leverage the talent of exceptional technologists and business people. In line with that philosophy, we have designed our compensation programs to support three main goals:
>
> - Attract and retain the world's best talent
> - Support Google's culture of innovation and performance
> - Align employees' and stockholders' interests
>
> We pay Googlers competitively compared to other opportunities they might have in the market. We also cover competitive benefits that help Googlers and their families be healthy and happy and provide unique perks that make life and work more convenient, design compelling job opportunities aligned with our mission, and create a fun and energizing work environment. We have a deeply rooted belief in paying for performance.[1]

2. Stating the Total Rewards Philosophy

The context for the total rewards strategy is the input for the statement of total rewards philosophy. This statement connects the core mission, strategy, and values of the organization to the rewards programs and practices that influence organizational behavior. Although it might be helpful to see the statements of other organizations, a total rewards statement is best created by the organization itself. This is perhaps the most challenging element of a total rewards philosophy. The difficulty is not in expressing what needs to be done but in how to express something succinctly that is meaningful to employees.

The statement of philosophy becomes the basis of the strategy statement. It should define the overall objective desired from all the total rewards programs, with the realization that each program will focus on what it does best. Here is an example from Whole Foods Market:

> Our compensation and benefit programs reflect our philosophy of egalitarianism. While the programs and individual pay levels will always reflect differences in job responsibilities, geographies, and marketplace considerations, the overall structure of compensation and benefit programs should be broadly similar across the organization.
>
> The primary objective of our compensation programs, including our executive compensation program, is to attract and retain over the long term, qualified and energetic team members who are enthusiastic about our mission and culture, providing them with sufficient income and other benefits to keep them focused on the Company as their employer. A further objective of our compensation programs is to reward each of our team members for their contribution to the Company. Finally, we endeavor to ensure that our compensation programs are perceived as fundamentally fair to all stakeholders.[2]

3. Define the Purpose of Each Reward Program

Once an organization has a total rewards philosophy, it can define, and develop, the purpose of each primary reward program. These programs include base salaries (both the salary levels and pay increases), variable pay plans (these include bonus plans, sales incentives, project or team incentives, management bonus plans, gain-sharing or goal-sharing plans, companywide profit-sharing plans, etc.), employee benefits programs (e.g., health insurance, life insurance, retirement programs, etc.), and recognition and development processes (e.g., performance and service recognition, promotions, spot awards, targeted training investment, etc.). Answering these three questions can develop the purpose statement:

- Why does each program exist?
- Why is it meaningful to your employees?
- How does it give the organization a competitive advantage?

These questions should assist in forming the purpose statements for each major category of reward programs. Intuit provides a very good illustration of these purpose statements for its reward programs. Here are examples of the purpose statements for some of them:

> #### "Be Rewarded"
> Our Total Rewards program is more than just a paycheck. It includes compensation and recognition programs designed to reward your performance, tools to help you plan your financial future, and benefits and services for your whole family. Our pay and recognition plans cover cash and other nice rewards.
>
> #### "Be Recognized"
> **Base Salary**
> We offer competitive salaries to attract, retain, and motivate you. We believe in rewarding you for excellent performance. Our merit-based system ties salary increases and promotion opportunities to the results you deliver that help Intuit grow.
>
> **Incentive Pay**
> You deserve rewards for exceptional performance, so we offer bonus and incentive programs at all levels of the organization. They include sales commissions, support and customer service incentives, and other programs.
>
> **Spotlight Recognition**
> Everyone appreciates being appreciated. To thank you for a job well done, our peer recognition tool allows us to recognize each other with cash and other awards. And if you stick around a while, we'll celebrate your milestone employment anniversaries with service awards.

"Be Secure"

Planning for tomorrow is important. That's why we offer several tools and programs to help you plan your financial future.

401(k) Investments in Your Future

Intuit's 401(k) Plan allows eligible employees to save for their future by contributing on a pre-tax or post-tax (Roth) basis and receive a company match on a portion of the savings. Employees may choose from a broad range of investment funds, including funds designed for anticipated retirement date and self-directed options for their savings.

"Be Well"

Your family's health, wellness, and security are a top priority. We offer excellent healthcare benefits plans, insurance, and more.

Medical, Vision, and Dental Care

There are several plans available, so you can choose the option that's right for you. Choose from three medical plans, a PPO, a consumer directed health plan, and a managed network plan.

Life Event Program

Our life event program provides a free resource and referral service to assist in life's everyday issues and even the bigger issues that come up. This includes things like parenting, childcare, elder care, adoption assistance, educational assistance, and work issues.

"Be Balanced"

You've got a busy life outside of work, too. To help you balance it all, we offer several great programs, including time off, fitness incentives, and tons of on-site services.

Vacation and Time Off

Everyone needs a little time away. We offer paid vacations, personal holidays, and sick leave. Temporary, contract, flextime, and seasonal employees are not eligible for time off with pay.

Parental Leave

Having a child changes everything. New mothers and fathers can take up to two weeks of paid parental leave to welcome a newborn or newly adopted child.[3]

A total rewards strategy based on a defined philosophy and programs based on this philosophy outline why and how a company or organization spends its money on people.

How to Develop the Right Strategy for the Organization

The total rewards strategy is built on the mission, strategy, and core values of the organization. This strategy must consider two other important factors:

1. What is the stage of development facing the organization?
2. What is important to the people who work for the organization?

The stage of development recognizes that the challenges and pressures facing an organization differ along a continuum of growth and maturity. Consider the following different stages and the implications on how they would shape a total rewards strategy.

1. Start-up and Emerging Companies

These companies are just forming, sparked by a new idea, a new service, or a new product. If they are successful, they are the disrupters in the marketplace. They are driven to determine the proof of concept and to build demand in the marketplace for their product or service. The implications for a rewards program are clear. The company probably does not have much money, but its founders are driven by passion, a belief, and a hope that someday they will be rich, famous, or both. Therefore, the type of compensation plans the company has usually involve a minimal salary and, if so structured, an equity stake in the long-term or ultimate growth and success of the business. People get as much from the experience as they receive monetarily, at least in the beginning and to a point.

2. Investing and Growing Companies

Organizations in this category have proven themselves and may have acquired capital to expand and grow. They start hiring people because the original founders can no longer do all the work needed to serve customers. The pressure is intense, and in many ways, they are making things up as they go. They need to figure out ways to proactively respond to the increasingly complex customer demands. In these organizations, people are hired who fit the organization's culture and immediate needs. Such organizations need people with some experience who can meet the demands of the company. Because people joining the firm are no longer founders, the company needs to pay salaries that are sufficient to attract and retain these people. Employee benefit plans become installed, if only at a basic level. Bonus plans may exist if the company has sufficient profitability to afford these expenditures. If not, there is more reliance on equity, with a more reliable promise for a future fortune. The firm is likely to have professional investors who reinforce this alignment of growth and future rewards. The wise use of cash is critical, and this is reflected in what compensation the company can and does pay.

3. Formalized and Professionalized Companies

Organizations at this stage have demonstrated their value to the market, they have hired a lot of people using the "let's make a deal" practice, and at times they are out of control. They need specialized help. At this stage, professional practices and consistent processes are needed to build the foundation for future growth. Issues are starting to arise about the internal fairness of the "deal." There is a growing need to align all the promises and expectations with a sensible and effective set of practices. If the company is successful, structures start to emerge in a number of areas, and people are hired who are specialized and highly experienced in doing the work needed to help the company grow. Some companies regard this as hiring "adult supervision." There are concerns about the dramatic change in the firm's culture and often a sense of loss from the earlier "wild west" adventure that may be romanticized by the long-service employees. Transition to this stage is essential if the firm continues to grow.

The implications for a compensation program are profound. At this stage, the company starts to adopt different programs that are linked to the performance requirements, desired culture and practices, and needs or profiles of the employees. Organizations start to define career paths because people want to know if there is sufficient opportunity to remain with the firm. There are bonus plans that are both corporate and individually based. Equity plans, which may have been awarded to everyone, are now being limited to those who truly make a difference on the long-term value of the company. Benefit programs are instituted that meet the needs of a diverse workforce and based on what is most important to people. If the organization continues to be successful, it will grow, develop, and provide guidelines that inform and enable good decisions to be made regarding resources and expenditures.

4. Diversifying and Consolidating Companies

If the company continues to grow and prosper, it starts to be larger than can be managed in the original fashion. The company at this stage is more likely to be geographically diverse with offices and operations in multiple regions of the country or world. Companies start to establish free-standing divisions or subsidiaries that can be more responsive to the local markets. Product lines merge into sectors of a business, and companies acquire other firms, consolidate operations to gain economies of scale, and seek ways to balance the need both to delegate functions to lower levels and to ensure integration and collaboration across functional areas. It is moving in multiple directions. Here the rewards systems often change and adapt to a changing business environment. Some programs remain centralized or retain a common foundation for (hopefully) good reasons—economies of scale, cost savings, cultural requirements, legal regulations, and to retain a connection with the parent company. But many programs are decentralized to better align how people are compensated for who they are and what they do. Diversity in programs and practices is encouraged. However, at times, a central theme or guiding principles are necessary to retain the sense that the employees are all part of the same organization. Bonus plans now have more emphasis on business-unit results than corporate results; companies use different pay plans that fit with different markets globally; and employee benefits are as diverse as the organization is, with different countries and legal or cultural requirements. One size does not fit all, and this is okay.

5. Revitalizing and Renewing Companies

There comes a time, and perhaps there were several times during the life span of the organization, that it needs to renew itself, reshape itself, and reconfigure itself into something that is better prepared to address the needs of a dynamic marketplace. Companies divest businesses that no longer fit their core mission or the performance requirements of the share- or stakeholders. Some firms will contract to focus on what they do very well, their core competencies; other firms will expand globally through acquisitions and investments that reshape who they are in the marketplace.

At this stage, it is difficult to describe the direction of the total rewards programs. It depends on the journey (and strategy) the company is pursuing. The firm will, if it is smart and successful, use some of the experiences with programs that worked for it in the past, as well as develop new ones needed for the new organizational model. It should use this knowledge and these principles to reshape the employment relationship.

A Sound Rewards Strategy Considers Workforce Requirements

Given this continuum of growth and development of an organization, one can easily see how a total rewards strategy will be very different across these stages. The implications are important. The differences reflect a combination of financial sources, diversity of staffing, and expertise requirements. Depending on the stage of development and, more important, on the transition of the firm to a next stage, the total rewards strategy needs to reflect this reality and the firm's unique requirements. But this is not all.

A sound rewards strategy considers the nature and wants of the workforce. Understanding the current needs and aspirations of the workforce is essential to the development of a set of programs and services that are meaningful to individuals. Consequently, the staffing plan and profile of the workforce should shape the design and communication of the rewards strategy. As stated earlier, a reward is something that one perceives as meaningful for doing something the organization wants. This means that the employee is the one who determines the value of the reward, not the executives or human resources program manager.

Understanding the needs of the workforce is similar to understanding customer segments in the marketing function. The marketing profession has many frameworks for researching and describing different segments of a marketplace. Every successful company knows the value of this understanding and then designs its products or services to be appealing to the desired market segments. So too, in the competitive landscape of human resources and talent management, the organization's leaders need to know what is important to their workforce so that they can effectively communicate and motivate workers to optimal performance. There are many studies that describe the differences between the primary generations—traditionalists, baby boomers, generations X and Y, and the millennials. Further, there are differences in employee perceptions about what is valuable when you cross geographic boundaries. Describing these in detail is beyond the scope of this chapter, but it is important that both the content and the medium for communicating the total rewards strategy reflect these differences. New technology and communication tools are enabling rewards to be personalized to the requirements of the organization and, ultimately, to its people. Then the organization can form a stronger bond and engagement with each person who seeks to maximize his or her contributions to the organization's success.

Conclusion

The strength of an effective rewards strategy will be in how it achieves the right connection between the strategic business requirements of the organization and what is meaningful to the individuals who make the organization successful. This process of strategy development, program and process assessment, and change implementation translates the vision of the firm's leaders into actions that people can use every day as part of their approach to talent management.

References

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Chapter 33

Using Compensation to Win the Talent Wars

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REWARDING TALENT IN ORGANIZATIONS HAS BECOME A WHIRLING KALEIDOSCOPE OF different practices, priorities, and techniques with some organizations sticking to tried and tested "old world" approaches, with other organizations completely reviewing their approach—even going so far as to say that their business model, rather than being sales led or finance led, is now talent led.

In this chapter, my objectives are to sift and rationalize the array of practices and attempt to combine the new with the best of the old to develop a strategic direction for how to reward talent in your organization in a way that attracts, engages, and allows talent to perform optimally.

This chapter covers four main learning points. Within the context of these learning points we also weigh all evidence from conflicting models and ideas in order to help readers develop their own approaches to rewarding talent effectively.

Point 1

Examining how analytics can drive a deeper understanding of the connection between talent and reward and ensure the best return on investment. How can we use big data techniques to improve our decision-making processes?

Analytics in HR have had a long and difficult birthing process. It should be simple—think about finance in your organization. What does finance do? How does it work? My guess is that it is fairly well regarded. Finance has the go-to people who understand the money, costs, revenue, sales success or failure. They have a place at the table, a reputation, credibility, and independence. Or imagine a marketing director who couldn't back up a campaign with measurable outputs, but had "heard good things anecdotally."

What can we learn from these examples in HR? How can HR develop muscle in creating architecture around people/compensation and talent in the same way? How can our people perform better, and how can we replicate the success that other areas experience?

How Do You Establish HR Credibility?

HR analytics purport to answer the question of how HR establishes credibility. They are both descriptive and predictive. By gathering rear-view-mirror data, it's possible to learn from previous experience, based on hard data rather than on gut feel, but proponents say HR can also use analytics to predict the future. It sounds like a compelling picture, but, in reality, many HR teams have tried and failed to use analytics to provide meaningful insight into their organization. The view is that HR analytics might work for huge firms with a massive data universe. But most employees work in smaller organizations—under 5,000 people—or the public sector whose track record on data management is poor and not integrated.

So to create architecture, we need to start small and be consistent. What would be different for you if you could reliably track and report on key components of people, talent, and reward data? Tracking the trends over weeks, months, and years will show how your organization works and pinpoint where HR can improve your organization's success.

There are four ways simple analytics can drive insight:

1. *Stress the importance of data interpretation:* Analytics are the interpretation of data to generate insight. Your data alone are not analytics; your HR system is not analytics; and your reports are not analytics. Use your tools to look for trends in your data and ask questions to understand the drivers of those trends and how they impact the business. Good questions might be: How good are we at controlling voluntary attrition among talent we'd like to retain? How do our pay reviews map against our talent framework? Are we spending our valuable dollars on employees based on the rating of their current and future contribution to the organization?
2. *Link to the business objectives:* Analytics should always be linked to the business objectives. Start by identifying a specific current business problem and see how you can provide insight from HR's perspective. Remember to put a dollar value on it; you should look to the financial impact where possible, such as cost of absence or turnover, hiring costs and how an in-house team can reduce these, how this impacts the bottom line, and why management should care about it.
3. *Consider the power of all types of data:* Everyone has bad data. The majority of companies acting upon their data are fighting a never-ending battle to improve and maintain the company's quality. But, your data don't have to be 100 percent or even 80 percent complete to be useful. It's easy to get paralyzed in improving your data quality or refining the output, but don't be diverted from delivering output to the business. Use the full range of data when making decisions.
4. *Be transparent and open:* Analytics require light to survive and thrive. HR analytics sit in HR, but should not stay there; transparency and best practice HR analytics go hand in hand. Open communication of analytics is what will help them thrive; your long-term goal should be to create a culture of collaboration and interpretation of data between HR and the business—be patient!

HR teams are better prepared to deal with problems and potential solutions to talent management issues once they have an analytic framework.

It's okay to find out something you didn't know. HR teams embarking on analytics projects often seem to panic for fear of having their "homework" marked. In reality, unearthing a trend that HR hadn't already identified isn't a failing on HR's part; it's a sign of success that has been discovered and can be addressed.

We often hear: "It didn't tell us anything we didn't know already." For example, employees were found to be leaving because of a bad manager, not a lack of money. What analytics does is objectively establish something that you subjectively believed by supporting and adding credibility to your conclusion; or by disproving something you accepted as truth.

HR teams must be sensitive to the fact that analytics are only a tool. They provide insight and context, but not the "truth." Use analytics to spot worrying trends early on, justify the actions you want to take, and/or demonstrate the positive impact on your HR/talent team is having on the business.

Case Study: Experian

Experian is an organization that specializes in interpreting correlation. Identifying data points and seeing patterns and predicting outcomes is its business, as stated in its website:

> We gather, analyze and process data in ways others can't. We help individuals take financial control and access financial services, businesses make smarter decisions and thrive, lenders lend more responsibly, and organizations prevent identity fraud and crime.

Nick Birch, head of rewards in Experian UK, has applied this forensic interrogation to predict key talent flight risk and support HR business partners to have detailed conversations with managers about the flight risk for talent in their area. They have prioritized their pay spend where they have experienced rising employee turnover in key priority roles.

Experian used some of its own data insight tools to look at its own employee population by correlating a number of different elements. Birch found that by taking a many-values, rather than single-issue, approach to different elements of what made talented individuals decide to leave the organization and examining the profiles of former emplyees, Experian was able to identify "vulnerable to flight" individuals and then target talent remuneration spend to prevent highly valued employees from leaving.

The approach was first to identify the key areas of the business pain including higher than average employee attrition, and then identify key individuals who should be retained by correlating performance and potential scores. By then adding other factors such as pay relative to the employee's pay market, pay compared to others of a different gender, the effectiveness and tenure with his or her current manager, how recently the individual had a pay rise, Experian found it would have been able to predict over 80 percent of the previous 12 months' voluntary attrition. Experian would be able to use these data to help it ensure that retention rates could be improved among groups of employees who are highly rated and/or upwardly mobile.

Point 2

The business world can learn a great deal about employing novel ways to win the battle for talent acquisition, talent retention, and the development of mission critical skills by looking at the world of sport and other highly competitive environments.

My firm has done a great deal of compensation work over the last few years with sporting organizations such as Manchester City FC, the U.K. Tennis Association (the LTA), Arsenal FC, and other U.K. premiership football clubs and leading sports' governing bodies. We examined many studies to determine whether it is possible to learn business lessons from sports organizations and their development of players. Among the studies we examined was a special report entitled, "The Golden Few" by Jackson Samuel in 2009. It presented a review of talent management practices in highly specialized elite organizations. It provided fascinating food for thought. Based on our experience and general research we drew the following conclusions from Samuel's report:

1. *Move to an exclusive, not inclusive, world of talent.* Put in place clarity and understanding of what talent means at the heart of your strategy and how it is defined at different levels. For example, the LTA

produces a DVD for coaches showing how a talented eight-year-old should hit a forehand. This level of definition keeps the talent funnel on track and doesn't engender false hope at an early stage.

2. *Define different levels of talent.* We suggest creating three main categories:
   - *Academy:* Your future hopefuls who have raw talent and highly developed technical ability, but haven't yet had the chance to hone their business skills in a challenging situation
   - *Reserves:* Those who have cut their teeth in a business environment and have started to apply their technical expertise and develop business competence—leadership, resilience, team performance, and so on
   - *First team:* Those who have a proven track record in the "big stuff" and can demonstrate that they have a longer-term focus and history of achievement in different circumstances

   While managing these groups, it is essential to harvest and weed as you go; different people develop at different speeds, and some people never fulfil their early promise.
3. *Link reward to the appropriate level.* Looping back to our original premise—the current workforce is made up of individuals with goals that differ from their predecessors—it is clear that different groups in your talent framework should have contrasting reward arrangements. And, crucially, it should be appropriate to their level and the contribution they make to the organization.

Following are recommendations on how to approach compensation in each of the three categories.

	Academy	Reserves	First team
Base pay	Monitor closely. Move away from "annual" mind set. Know pay market. Aim for median.	Vulnerable to poaching—go for upper quadrant of your market. Know your competitors.	Important, but know that mix of total package is right.
Annual bonus	On individual achievement—milestone rewards.	On annual basis, mix between individual achievement and team/dept.	Focused on operation, urgent, time-limited achievement. Medium upside.
Long-term plan	Less important.	Tie in your assets with options for future.	Tie into long-term growth/profit/business strategy. High upside for high performance.
Recognition	Highly important. Cheap/free.	In assignments to show worth.	Have to be resilient—recognition is more external.
Nonfinancial	Offer regular assessment and progress reports. Be alert to new opportunities.	Re-recruit—make clear where development lies in competence areas.	Benefits/pension seen as key element of package.

Table 33.1 Compensation Considerations for Different Talent Levels

Academy

- *Eliminate annual mindset.* Projects and growth may be happening at times that are different from one that fits comfortably with the annual pay review. Be flexible and reward according to the work completed and standards attained, that is, end-of-project bonus payment.
- *Keep base pay market data fresh and keep pace with them.* The academy incumbents are characterized by patchy periods of growth and development. Annual base pay increases may be too slow to reflect new skills and value to the organization.
- *Build in recognition, not just pay.* At this level, it is important to show individuals that their contributions are important to the organization. All the emphasis should be on building experience, adding to skills, and providing challenges, with a view to a long-term future.
- *Focus less on long-term pay solutions.* Traditionally the Academy group has been rewarded through share options and long-term plans for retention purposes. The disadvantage of this approach is that cementing cohorts to the organization at an early stage of their career may result in the unwanted retention of mediocre employees who won't leave on their own because their options haven't matured.

- *Harvest and weed regularly*. Keep an eye on your crops—accept that some won't make it out of this group, and others may mature and develop more quickly than expected. Elite talent management is all about remaining flexible.

Reserves

- *Base pay:* Individuals are visible and vulnerable to competitive poachers. Keep ahead of changes in their pay market and be confident that you can quickly respond to demand pressures.
- *Bonus:* Linked to company performance and individual skills. Rotate out of slow-growth businesses into high-growth areas where they can make a difference to test skills and to create self-funded bonus opportunities.
- *Tie in long-term stock or cash plan:* This group may be particularly attracted by newer, sexier, high-growth businesses and opportunities. Give financial interest in the long-term to help retain focus.
- Continue to harvest and weed regularly.

First Team

- *Ensure that these really are first-team players*. Use your talent standards to help understand their impact on the business now and the long-term value they represent.
- *Base pay*. Make sure you understand the relevant pay market and total remuneration mix. The mix is more important than base pay alone at this level.
- *Bonus*: Linked to company performance—be sure that annual variable pay is linked to both company performance (primarily) and individual performance (secondarily).
- *Tie-in long term*. Stock or cash plan with high upside (or downside for poor performance).
- *Structure pay to reflect business strategy,* that is, growth or profit.
- *Know that members of the first team don't stay forever*. The average tenure of a CEO in the United Kingdom is 4.5 years. The average tenure of an English premiership football club manager is 2.4 years. Most of them never see the result of their five-year plan. From an employee point of view, the rewards are high during these years, but so are the risks, and some people never find another role at the highest level. It is understandable why CEOs expect and receive high pay, but the pressure to deliver on the expectations they have created is often unsustainable.

Point 3

Addressing changes in performance management approaches and how they can cause problems in rewarding talent. Retaining the best employees in the "new world" of open discussion between employee and manager yet providing basis for a legitimate pay decision.

The story started with a rash of news coverage about how Adobe, Deloitte, Microsoft, and Goldman Sachs had decided they were not seeing the results or uplift in performance of employees as a result of the time and energy invested in regular performance reviews. At the heart of the discussion were key issues about the faster pace of business (annual reviews don't cut it), and employers recognizing that a more collaborative coaching style of manager was getting better results with gen Y (and everyone else) than the top-down MBO traditional approach. So out went the baby with the bath water and in came a new, less rigid framework approach to managing performance. Coaching conversations focusing on future circumstances rather than on forced ranking and performance scores and online performance management systems helped both managers and employees have useful and productive conversations. All appeared positive but there was a big wrinkle. It was tying coaching conversations, personal development, and career progression to hard, cold decisions about compensation? Without a clear structure to manage pay, organizations found that their new approach was in danger of putting too much pressure on managers to make hard compensation decisions without an audit trail of formal data points on all elements of performance assessment.

So how would it be possible to marry the forward-looking coaching and developmental style that is the basis of many of the new-world approaches with the need to make robust decisions on pay—decisions that must be defensible, fair, transparent, and justifiable to the wider world. Microsoft has openly admitted that it has found this challenging and requires more work. If one of the biggest companies in the world, with some of the best brains available, was struggling, how can we develop approaches that work for all companies?

First, don't follow the crowd. Although at first pass all the "new" schemes look similar, they have been crafted to meet the needs of individual businesses. Deloitte's approach doesn't mirror Adobe's and neither have followed Microsoft's scheme. What is common is a focus on the individual, a move away from a very rigid annual timescale, and a recognition that objectives set annually are difficult to manage in our faster-paced and more fluid world. Gen Y requires more regular feedback, and in smaller bites, and more timely to the work being reviewed. A discussion about future career and an honest discussion about areas for development is probably not best tied to the same 30-minute conversation that settles the pay review for the following year. However, a simpler approach, where performance evaluation and performance development are split into two streams is effective and doable for most jobs.

Next recognize that you will have to differentiate pay based on how you evaluate your employees in one of three lanes: those who are sinking, those swimming, and those who are clearly and obviously walking on water.

Last, make sure that employee pay is tied to rates in actual pay markets where you recruit or lose employees. You will need to implement competitive pay levels that will enable you to attract and retain your best employees while, in aggregate, being affordable to the organization.

Understanding how a worldwide trend toward a rise in transparency on pay decisions around gender, ethnicity, and worker pay helps us improve participation of all groups of talent at all levels. How can we go beyond headline numbers to understand meaningful trends that allow us to take control of paying fairly and maximizing our talent pools?

Point 4
Transparency: An Important Consideration in Talent Management and Compensation

Finding talent is often cited as the CEO and C-suite's biggest challenge. Countless surveys report that a shortage of talent is the biggest threat to organizations as well as national wealth progression.

Remarkably, most organizations hardly scratch the surface of the female talent pool at senior levels, with 80 percent of employees in the most senior roles being male, rising to over 90 percent at executive board level. The challenge for talent professionals is to build a steady and replicable talent pipeline of women that allows for the future development of a female leadership pool. In the U.K., gender pay disclosure in companies of over 250 employees, allied to a firm push from HM Treasury to firms in the financial sector, has created a storm of organizations publishing target figures for female participation at the top of the firm. There has also been rising attention to transparency on gender pay gaps that has driven consultation exercises on a similar program across countries in the European Union. Will transparency affect the talent pool available to companies?

Transparency is a megatrend that has emerged over the last five years and will continue to rise because of a combination of the will of the legislators and the use of the Internet for knowledge sharing. It will increasingly require a more strategic and thoughtful long-term planning approach to demonstrate change over a three- to five-year period in order to make a difference to gender pay gaps, and where applicable, CEO/worker ratios. Disclosure on ethnicity and combined analytics on gender and ethnicity are likely to follow over the next few years. When organizations are required to publicly disclose unjustified pay differences based on factors unrelated to performance or pay market, they are likely to make the needed corrections.

Chapter 34

Developing an Effective Compensation Philosophy that Attracts, Motivates, Retains, and Develops Top Talent

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A WELL-THOUGHT-OUT COMPENSATION PHILOSOPHY IS AN INTEGRAL PART OF ANY company's talent management program. In the ever-changing landscape of total rewards, organizations are challenged to build competitive and sustainable pay programs that help recruit and motivate key talent while supporting strategic objectives. Employers of choice need leaders who will not only drive profitability with their personal performance, but will engage the organization's workforce as a whole.

Key talent includes executives, critical employees who are hard to replace, and high-potential employees, who are the leaders of the future. The cost of losing key talent is substantial. In addition to the real costs of recruiting and training key talent, there is an unknown but very real opportunity cost of not having the right key talent in the right place at the right time.

Deviation from a compelling and market competitive compensation philosophy may negatively affect a company's ability to attract, retain, motivate, and develop key talent. Too often, boards of directors and other compensation decision makers discover that their compensation philosophy and subsequent offering is inadequate when it's too late and a key player is lost to another organization or industry, or the company is unable to secure a top recruit because its value proposition isn't persuasive.

A compensation philosophy must be approached strategically and comprehensively—it cannot be an afterthought. Companies in different industries and at different stages of development may have differing compensation philosophies. As a result, it's very important that companies understand the compensation philosophy "norm" among both direct competitors and the general industry in order to ensure that their own plans and programs are sufficiently competitive in terms of structure and value.

Today, the talent pool is becoming more homogeneous. Key talent is moving between organizations without regard to size (small or large) and type (public or privately held). Some key executive position holders are even able to move fluidly between industries, adding another layer to the raging war for talent. While a CEO generally requires business-specific expertise and is likely confined to a career in one industry, other positions—particularly senior legal, finance, or human resources managers—may be able to "industry hop" once or twice. Companies need to pay attention to these trends, which can directly affect their ability to attract key executives. See Figure 34.1 for a summary of positions that are more "general" (able to move industries without much difficulty) and "industry-specific" (generally limited to a single industry).

Figure 34.1 General Versus Industry-Specific Positions

Some companies in early stages or high-growth industries (e.g., high technology) try to conserve cash by offering nominal salary and annual incentive levels combined with significant equity awards. This strategy can be an effective form of talent management for companies with high corporate performance, as equity awards are sizable enough to make up for the low cash compensation. However, if corporate performance is substandard (e.g., the stock price underperforms), key executives are left with low relative salaries with no incentive payout or accumulation. This results in significantly reduced executive retention and motivation, with executives searching for more stable, cash-rich compensation plans and/or a better performing corporate environment. On the other side of the spectrum, a mature company that offers a high base salary opportunity may tend to offer lower-risk incentive opportunities—the dramatic compensation growth that might be possible with a high-performing startup or growth company is not often seen at an expanding or established company. Figure 34.2 illustrates the spectrum of a business life cycle from early development to maturity.

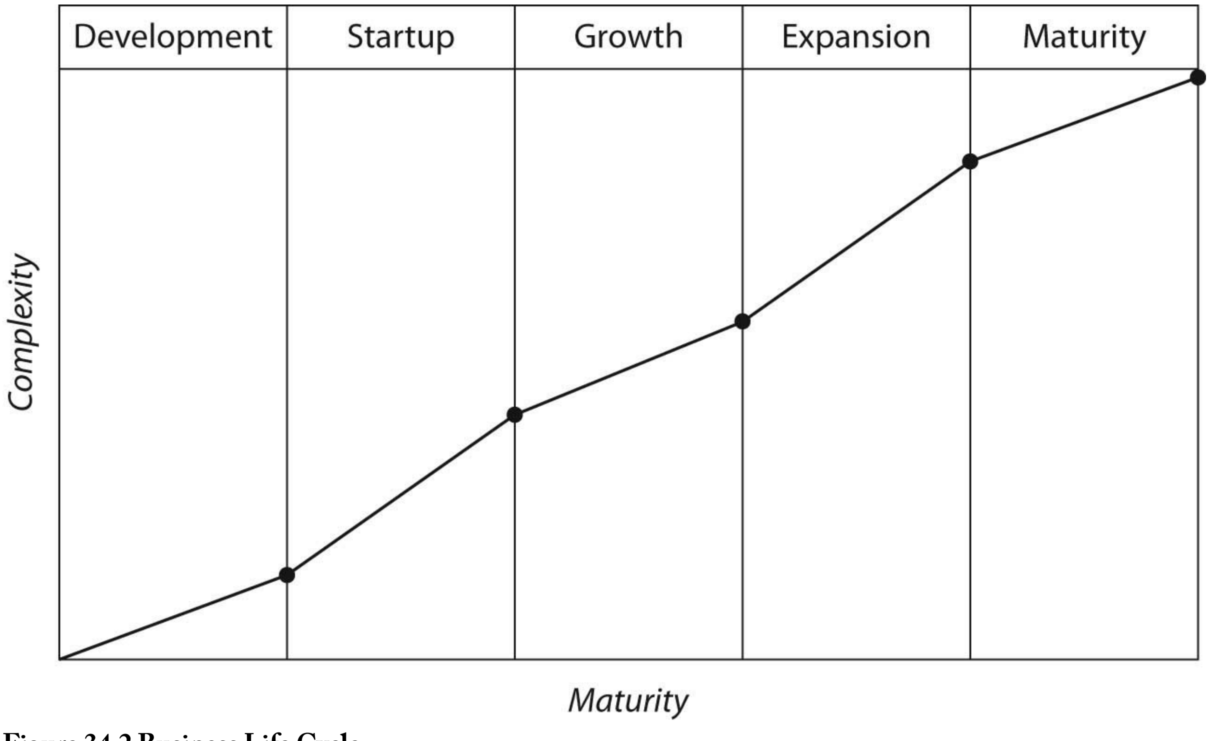

Figure 34.2 Business Life Cycle

In order to maintain and improve executive retention, it is imperative that companies understand how their compensation philosophy stacks up or "matches" both specific industry competitors and the industry in general. Faltering corporate performance (relative to competitors and/or the general market) combined with a compensation philosophy that deviates from the norm result in weak retention. A CEO at this type of company may look to join a competitor; a more fluid position like a general counsel may jump ship to a different industry altogether. On the other hand, robust corporate performance combined with a compensation philosophy that is aligned with the market creates a strong executive retention platform. It is difficult for an executive to feel disengaged from a company that appropriately awards high performance. High corporate performance combined with a deviating compensation philosophy (e.g., low-cash and high-equity potential) can go both ways, leaving some executives in search of more stable compensation in case performance deteriorates, and others motivated and encouraged by similar or even better performance in the future.

See Figure 34.3 for a summary of how relative corporate performance and the extent to which the compensation philosophy "match" industry-specific competitors and the general industry will affect retention and recruitment efforts.

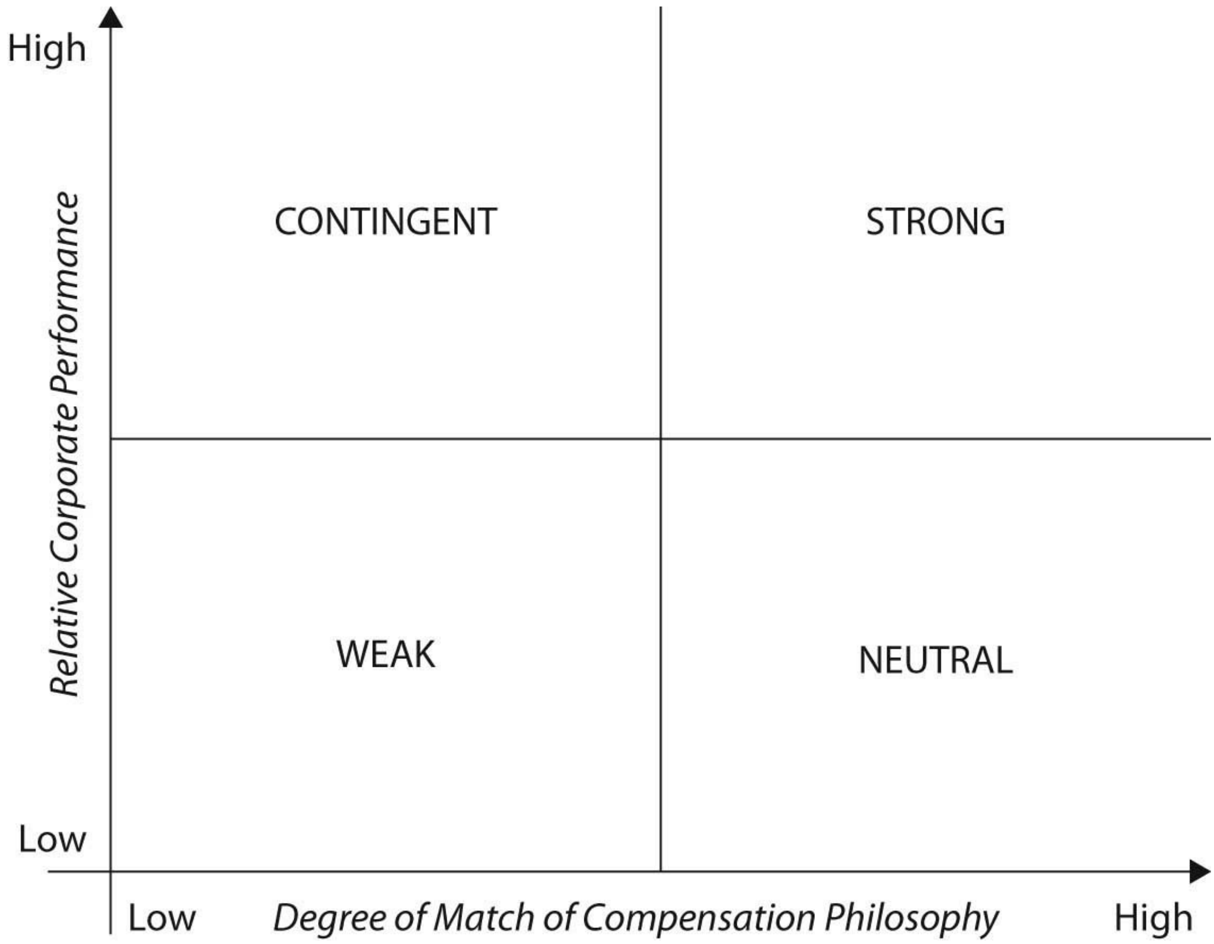

Figure 34.3 How Executive Retention Corresponds to the Alignment of Corporate Performance and a "Matching" Compensation Philosophy

Because of a variety of reasons, including new accounting rules, response to investor concerns, and a desire to strengthen the link between pay and performance, many companies are shifting their emphasis in executive long-term incentive programs from stock options to performance shares. A major cause for this shift to performance shares is driven by the desire to use a variety of performance measures rather than simply using stock price as the only measure to better align financial performance with incentive payouts.

The latest rules for accounting for stock awards (FASB ASC Topic 718 which replaced FAS 123R in September 2009) have dramatically improved the accounting for performance shares in relation to stock options. In fact, the new rules even allow for a discount to be applied to performance shares that are based on market price conditions. Further, many companies are exploring performance shares that vest based on nonstock price measures because the expense can be reversed for nonperformance (unlike stock options, time-based restricted stock, and performance shares with stock price-related performance measures).

Evaluating and communicating executive compensation programs has never been more critical.

The unique environment of the company and the individual needs of executives must be considered as compensation programs are designed. In addition to these considerations, public scrutiny of executive pay decisions and practices and the ever-evolving governance environment complicates the overall process of setting executive pay. To help navigate through the maze of competition for key talent as well as new rules and investor concerns, the company's compensation philosophy should be reviewed and in some cases re-created from scratch.

Simply put, a compensation philosophy consists of the following five components:

1. Compensation program objectives.
2. Internal versus external pay equity.
    - Company culture fit
3. Peer group comparisons.
    - Compensation
    - Performance
4. Pay positioning strategy.
    - Percentile ranking of components of pay versus market
    - Pay mix
    - Pay for performance curve
5. Performance alignment with business plan.

These components are illustrated in Figure 34.4.

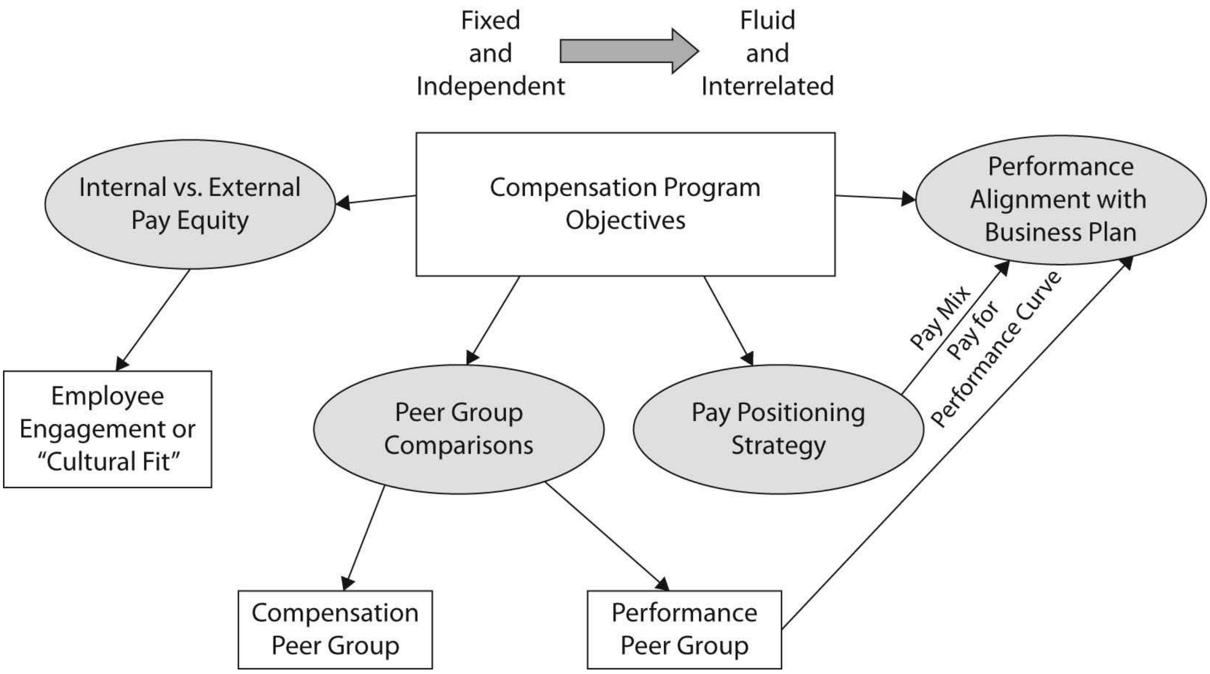

Figure 34.4 Components of a Compensation Philosophy

Compensation Program Objectives

A compensation philosophy is not a pay policy that lays out the specific details of a company's plans and programs. Rather, most stated compensation philosophies are compensation program objectives or guiding principles that drive how a company will approach compensation.

The compensation program objectives are at the core of the compensation philosophy and set the stage for the other four components. In a way, the compensation program objectives serve as an overall mission statement for your plans.

In general, most companies cite similar items in their compensation program objectives, such as:

- *Source of market data:* Peer group data are obtained for all companies whether from proxy statements and/or private databases.
- *Pay positioning:* Most companies target the median for all pay components, with adjustments for a variety of factors such as experience, tenure, performance, future potential, and unique skill set.
- *Pay for performance:* Almost all companies state that their goal is to tie pay to performance (company/business unit and individual).

- *Internal equity:* This is the DNA or culture of the organization and determines the importance of intrinsic motivation versus external motivation.

Below are some examples of compensation program objectives from well-managed and financially successful companies:

1. "... to align each executive's compensation with short-term and long-term performance and to provide the compensation and incentives needed to attract, motivate and retain key executives who are crucial to long-term success."
2. "First, our compensation program is designed to attract and retain the highest caliber employees by providing above industry-average compensation assuming stock price performance. Second, our compensation program provides strong long-term incentives to align our employees' interests with our shareholders' interests. Third, our compensation program emphasizes performance and potential to contribute to our long-term success as a basis for compensation increases, as opposed to rewarding solely for length of service. Finally, our compensation program reinforces and reflects our core values, including customer obsession, innovation, bias for action, acting like owners and thinking long term, a high hiring bar, and frugality."
3. "Our executive compensation program is designed with the flexibility to be competitive and motivational within the various marketplaces in which we compete for executive talent, while being subject to centralized design, approval, and control."
4. "... to reward our leadership team for delivering results and building sustainable shareholder value."

   "... align the interests of our shareholders and senior executives by tying pay outcomes to performance over the short, medium, and long term."

   "... to discourage imprudent risk taking"

The components are shown graphically in Figure 34.5.

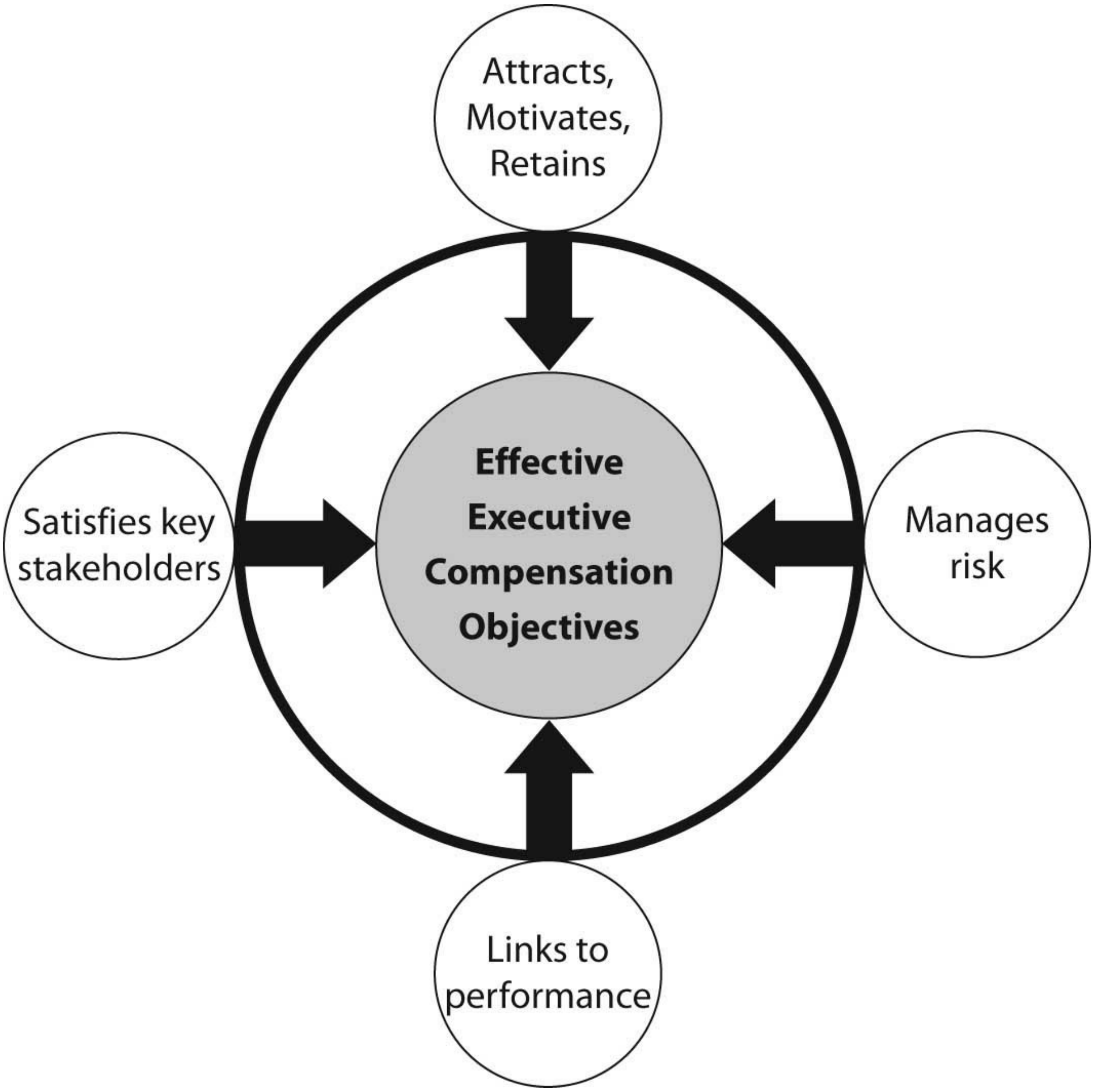

Figure 34.5 Effective Compensation Program Objectives

Internal Versus External Pay Equity: Cultural DNA and Fit

An effective compensation philosophy draws upon competitive market and financial data, but will also serve as an anchor for "cultural fit" of the organization and key talent, which is based on attitudes, opinions, and levels of commitment, engagement, and satisfaction. Up until now, most research has deemed cultural fit as independent and from other parts of the compensation philosophy. However, groundbreaking research shows that compensation alignment is a gateway leading to cultural fit and overall employee satisfaction.

The current mind set is that key talent is more closely aligned with intrinsic rewards than extrinsic rewards. In other words, motivation is more dependent on culture fit and level of employee engagement rather than what other companies are doing. Successful employees must have positive feelings toward their company and position in order to effectively lead and innovate. It is widely accepted among organizational researchers that factors such as relationships with supervisors, teamwork, career growth, and belief in the products/services offered by the organization tend to account for most employee reactions within a typical workforce. But what about compensation?

The interrelationship between the heart or cultural DNA of an organization and an effective compensation philosophy is interesting. Historically, compensation-related items have rarely been shown to be top drivers of engagement, as many organizational researchers have heavily discounted the impact of compensation as an efficient pathway to building a highly engaged workforce.

However, our firm's recent research clearly shows that compensation can be a powerful mechanism for shaping a culture of excellence. Recently, we have undertaken a series of studies that reconsiders the relationship between compensation and engagement; our preliminary findings strongly suggest that compensation is far more important than has previously been noted. These emerging findings show that when employees view compensation more favorably, their propensity to also feel more favorably toward the key drivers of engagement (relationships with supervisors, teamwork, career growth, etc.) escalates, thus optimizing the likelihood of high levels of engagement to be present. Conversely, when employees believe their pay is not fair, the chances for them to feel favorably toward the key drivers of engagement are significantly dampened—creating an obstacle to achieving an optimally engaged workforce.

To be clear, this emerging research does not mean that typical drivers of engagement (e.g., relationships with supervisors, teamwork, career growth, etc.) are no longer the most important pathways to building engagement. In fact, they still are. However, it does thrust compensation into a profoundly important position, demonstrating the critical need to develop or maintain a compensation philosophy that will in turn foster employee commitment.

Though not as impactful for key talent, external equity is still relevant. The reliance on market (i.e., what other companies are paying) is a function of many factors and is a reflection of the corporate culture. For example, a high-performing company that promotes from within can pay below market levels because the opportunity for job advancement is greater and the expected returns from incentive plans, especially equity awards, are higher.

Also, the confidence in the selected peer group and/or survey data is another factor in determining how much to rely on market data. In general, a company should not rely primarily on peer group comparisons in setting pay. At best, base salary levels should be compared with a broad-based peer group, but should only be used as a general guide for short- and long-term incentive opportunity amounts.

Peer group comparisons have been criticized by almost every pension fund, watchdog group, and every special report on executive compensation such as those published by the Conference Board and the National Association of Corporate Directors. However, what other benchmark data do companies have? How do you properly pay executives?

Top-level managers are less likely to move on to another job as they have invested their career with the company. For them, internal equity is very important. The relationship between pay and performance may have to be adjusted. For example, median payout should follow 60th percentile of performance. This will anchor the long-term plan in median payout for higher than median performance.

Constructing a Peer Group

Of the five components that make up a compensation philosophy, peer group composition is often the most scrutinized and also the most difficult to establish properly.

Peer groups are used basically for two purposes. First, they are used to set the base salary, annual bonus, long-term incentive and other compensation and benefits such as health and welfare plans and other compensation and benefit plans (compensation peer group). Second, they may be used to measure the company's financial success compared with the performance peer group.

The first step in determining competitive compensation levels is to carefully select a compensation peer group. This peer group should consist of at least 15 companies and usually no more than 20 companies.

The considerations for the selection of the compensation peer group are as follows (in order of importance):

- *Direct competitor companies*. Companies that you compete with directly in the marketplace for your product.
- *Same industry companies with comparable revenues*. There are many cases in which companies do not compete directly but are in the same industry segment. Care should be taken to select companies with similar profit and growth opportunities.
- *Companies ranked by stellar corporate performance or shareholder return*. This practice has been deemed somewhat controversial, as it is less likely that executives can jump industries.
- *Companies that you gained executives from or lost executives to in the past 18 months.*
- *Companies in the same business sector.*
- *Companies in the same local business area.*

While some of these same principles are used to construct a performance peer group, the industry selection is the most important criterion. Company size and the other factors are not as important. Also, the performance peer group tends to include more companies than the compensation peer group.

Compensation and performance peer group development can be a particularly challenging process for companies:

- That have competitors that are based outside the United States and/or are privately held.
- That have a unique mix of industry segments.
- That are significantly below or above industry competitors in size (by revenue, assets, etc.).

The selection of the peer groups is extremely important to a compensation philosophy. In some cases, compensation committees will select a peer group for their chief executive officer that is different from groups for other executives, and a different peer group for less senior employees. The rationale for this is simple. Searches for senior executives are national and in some cases international in focus. As you move down the organization chart, the focus shifts from national to regional and, for relatively junior management positions, to a local basis.

It is advisable to review both peer groups on an annual basis in order to ensure continued relevance based on the company's current situation.

Developing a Pay Positioning Strategy

If superior levels of corporate goals are planned, it is necessary to position and target compensation levels accordingly. As with other parts of the compensation philosophy, the pay positioning strategy is set at the beginning of the year, and consists of the following:

- *Percentile ranking of components of pay versus market*: For salary, bonus, long-term incentives, pension, health and wellness benefits, perquisites, and severance practices, a compensation philosophy should specify how each element of compensation is set. Most companies target the median (50th percentile) for setting total compensation, with variations for each element.
- *Pay mix*: This consists of salary, short-term incentive (STI) compensation, and long-term incentive (LTI) compensation. Companies must examine the following factors when considering pay mix:
  - Mix of salary, STI, and LTI
  - The STI/LTI ratio
  - Performance measure comparisons between STI and LTI
  - The LTI mix:
    - Restricted stock
    - Stock options
    - Performance shares
- *Pay for performance curve:* This consists of threshold, target, and maximum payout. The threshold varies by relative or absolute, the target pays out at 100 percent, and the maximum is for 75th percentile performance.

Percentile ranking in comparison to the market is a very important concept in communicating a compensation philosophy as it allows management to translate the board's intention into practice. Base salary should be compared to the market on a percentile basis. For example, the 50th percentile is also referred to as the median. That is, 50 percent of the salaries of the peer group are above the salary of interest, and 50 percent of the salaries in the peer group are below the salary of interest.

The purpose of a pay strategy is to increase the company's profitability. You don't want to under-compensate employees as they will leave the company because of low pay, and you do not want to over-compensate employees resulting in corporate waste. There is a relationship between turnover rate and competitive market positioning.

Salaries may exceed market median rates for those whose skills are superior to typical executives with similar responsibilities, or for those who hold positions that are uniquely important to the corporation. For certain key management positions in which the corporation must ensure the highest level of talent and performance, the corporation might target the 75th percentile. Conversely, salaries may lag median market rates for those who are new to a job or who hold positions of lesser importance.

To avoid increased fixed costs, extraordinary accomplishments or contributions should generally be recognized through annual incentive payouts rather than through salary increases. Exceptions are acceptable for incumbents whose salary falls below targeted levels.

The LTI mix will have a significant effect on LTI payout depending on corporate performance. As an illustration, in Table 34.1 we show four possible LTI mixes in relation to various levels of corporate performance. These four LTI mixes are as follows:

Table 34.1 Performance Payouts Under Various LTI Mix Scenarios

Performance	Mix 1	Mix 2	Mix 3	Mix 4
Poor	$ 0	$ 80,000	$ 0	$ 16,000
Below	$ 0	$100,000	$ 50,000	$ 45,000
Target	$ 60,000	$120,000	$120,000	$102,000
Superior	$300,000	$200,000	$300,000	$280,000

Note: Example based on beginning stock price of $10.00 and LTI performance award value of $100,000.

- Mix 1: 100 percent stock options
- Mix 2: 100 percent restricted stock
- Mix 3: 100 percent performance shares
- Mix 4: 50 percent performance shares, 20 percent restricted stock, and 30 percent stock options (this represents a "typical" large company LTI mix)

In Table 34.1 mix 1 fares well with superior corporate performance, but does poorly elsewhere. Most large companies use a blended/balanced approach of mixing stock options, restricted stock, and performance shares (mix 4). With this approach, the payout curve is flatter, but able to provide retention payouts even with poor corporate performance.

We recommend aligning pay and performance by reviewing industry data for one, three, and five years in comparison with company performance and short- and long-term corporate outlook. The pay-for-performance curve should be calibrated so that median performance results in median payout and great performance (75th percentile of industry performance) results in 75th percentile payout levels.

Another consideration in setting compensation is the pay-for-performance curve for performance shares. Figure 34.6 illustrates this concept; two types of curves are shown: "Tight" and "loose." The loose performance curve provides for a payout for lower performance. Most companies use a loose performance curve.

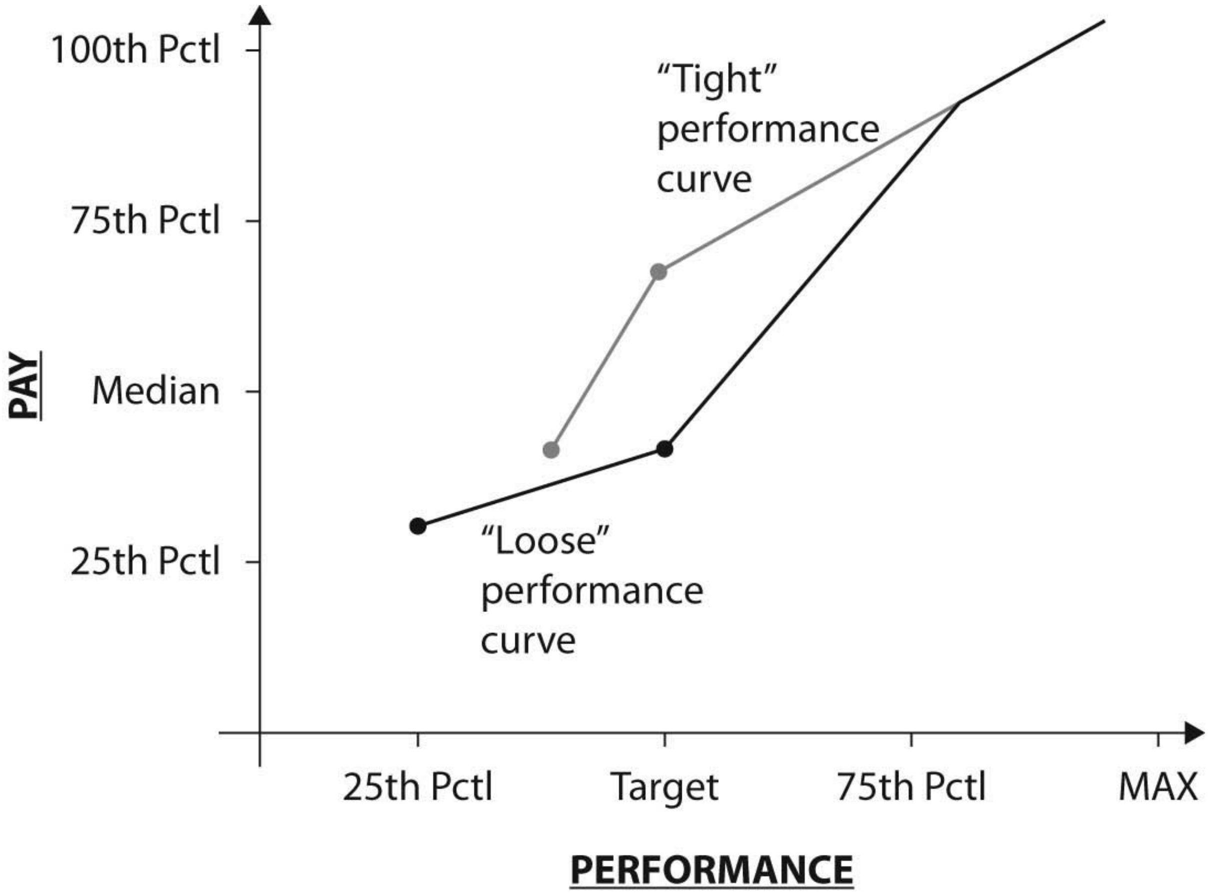

Figure 34.6 Tight Versus Loose Performance Curves

Alignment with the Business Plan

Compensation alone will not ensure the achievement of a business plan, but customized strategic alignment of pay programs increases the probability of success. Equipped with the right information, compensation decision makers can create a compensation philosophy that will stimulate a more engaged workforce and lead to a higher-performing organization.

The right executive compensation philosophy can act as a catalyst to help companies achieve their goals. Today's compensation decision makers understand that performance-based rewards are key drivers that engage and retain top performers. As a result of the regulatory and media spotlight on executive compensation, many companies are intensifying how their incentive compensation programs align with business strategies to support payouts that are proportionate with performance.

Boards of directors and senior management are continually searching for the right performance measures to balance rewards with both financial and operational performance as well as nonfinancial and individual performance.

As shown in Figure 34.6, the LTI mix and tightness of the pay-for-performance curve will have a substantial effect on payout.

Outside advisors, lawyers, and consultants have a substantial role in the process of setting and describing performance measures and goals. There are four major issues for publicly traded companies relating to performance measures:

- Use of short- and long-term performance measures that have been approved by shareholders (contained in incentive and equity plans).
- Clawback of incentive payouts if financial statements have been restated, causing the performance goals to not be met.
- Adequate disclosure of performance goals (measures and levels) in the proxy filing.
- Review of the risk associated with performance plans and appropriate proxy disclosure.

Determining the compensation for senior executives is a difficult process. The unique environment of the company and the individual needs of executives must be considered as compensation programs are designed. These considerations alone can be overwhelming; however, the piercing public scrutiny of executive pay decisions and practices further complicates the overall process of setting executive pay.

Conclusion

To compete in today's market for top talent, companies must be willing to confirm their overall compensation philosophy to specific industry standards and should also be mindful of general industry trends. They must also remember that an effective compensation philosophy can be a key recruitment and retention tool and should always be leveraged to motivate and develop employees toward business objectives. The five-point compensation philosophy is key for a successful company and will serve as the underlying framework when making decisions relative to compensation levels and program design. It starts with a thesis as stated in a compensation program objective and is underpinned with intrinsic characteristics, peer group comparisons, pay positioning strategy, and alignment with the business plan. Alignment with the business plan is interrelated with the pay positioning strategy that can result in a wide variety of payouts.

Part IV

Culture

Chapter 35

Driving Competitive Advantage Through Nontraditional Approaches to Engagement Surveys

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ORGANIZATIONS RECOGNIZE THE POWER OF AN ENGAGED WORKFORCE IN DELIVERING superior business performance and talent outcomes. As a result, most organizations undertake some sort of periodic workforce engagement survey. However, leading organizations today recognize that the workplace survey needs to do more than measure employee engagement. The survey should become a tool that enables the organization to implement strategy and achieve real and lasting changes. Since employee engagement is an important cultural outcome of talent management programs, this new perspective reinforces the need to make the engagement survey an important part of your talent management program.

This chapter explores how the workforce survey can go beyond traditional engagement to create competitive advantage and drive organizational performance. The first concept addressed is how to define and measure engagement, realizing that, at its core, what we measure and target and act on will impact different business outcomes. Second, employee engageability (a person's general disposition to be engaged) and how it relates to engagement outcomes are explored. Finally, we explore the idea that in order to drive performance in an environment of complexity and frequent change, workforce surveys need to focus on the organization's strategy and provide support toward achieving the business goals.

Taking Engagement a Step Further

Numerous studies consistently show that employees who are engaged are more likely to perform well on the job, stay with the organization, help their coworkers, and advocate for the organization.[1] A recent CEB study of over 100 organizations found that a company's average level of work engagement predicts both financial and customer metrics. Companies with higher engagement scores saw higher industry-adjusted profit and return on assets, as well as customer satisfaction and brand reputation a year later.[2] On the flip side, disengagement is costly for organizations in terms of lost productivity, poor performance, theft, and withdrawal,[3] as well as absenteeism, safety incidents, turnover,[4] and even health issues.[5] Despite being critical to key business and talent outcomes, 80 percent of heads of engagement do not believe that their organization is effective in acting on engagement data.[6] Thus companies that engage their employees gain a competitive advantage. Given the benefits of engagement and the price of disengagement—as well as the difficulty of increasing engagement levels—it is no surprise that employee engagement has become a billion-dollar industry worldwide.[7]

As interest in employee engagement has skyrocketed over the last 25 years, so has the number of engagement definitions and measures used. By 2009, estimates suggested that there were at least 50 definitions in use.[8] Despite the many different definitions used by practitioners, most people seem to agree that engagement is positive, beneficial to the organization, and characterized by enthusiasm, energy, absorption, and dedication. That said, organizations differ in their approaches to measuring engagement. Some organizations focus on the extent to which employees are engaged in their day-to-day work, whereas others assess engagement drivers (e.g., having friends at work), engagement outcomes (e.g., extra effort), or other employee attitudes (e.g., job satisfaction).

Nonetheless, it is alarming that only 55 percent of the heads of engagement functions believe that their engagement survey accurately predicts employee engagement levels.[9] This may be the result of the unfortunate fact that many organizations calculate "bloated" engagement indexes that include antecedents of engagement, outcomes of engagement, and other job attitudes. With so many different aspects of employee perceptions and behavior included in an engagement score, the meaning of these scores becomes unclear at best, and misleading at worst. Because bloated engagement measures often contain questions with different drivers and outcomes, it becomes difficult—if not impossible—for leaders to discern which aspects of the work environment should be addressed to have a meaningful impact on employee engagement.

To overcome the difficulties introduced by bloated engagement measures, CEB recommends that organizations be very precise when measuring employee engagement. Measuring specific employee attitudes and scoring them separately allows for the development of more precise strategies targeting key talent and business outcomes. For example, if a business unit is concerned about turnover, a measure focused solely on organizational commitment would be most helpful because it tends to be the stronger predictor of retention.[10] If underperformance is a key issue, then organizations should focus on improving work engagement given that work engagement is a key predictor of job performance and discretionary effort.[11]

Building Engagement Capital

So what should organizations include in their employee engagement measure? We recommend including work engagement and organizational commitment as the central components of an engagement model. We focus on these two attitudes for several reasons. First, work engagement and organizational commitment have been shown to have the strongest impact on key talent outcomes such as employee performance, retention, and organizational performance.[12] In addition, each attitude focuses on a different target: Work engagement is a psychological state at work in which people are focused and dedicated, and experience energy and enthusiasm from the work they do. Organizational commitment is an attachment to and involvement in one's organization. Thus, measuring both addresses two key aspects of talent management: ensuring that employees are (1) doing good work, and (2) plan to stay. Finally, both attitudes have a strong theoretical foundation and have been the subject of thousands of academic research studies, the findings of which have been extracted into best practices that can be leveraged in practice.

Of course, organizations may need or want to measure other relevant employee attitudes with their surveys, such as commitment to one's team, job satisfaction, or trust in management. Additional attitudes can certainly be included on employee surveys, but they should be scored separately from work engagement and organizational commitment.

The Critical Role of Engageability

One way organizations can go beyond the annual engagement survey is to consider the employees' disposition as a driver of engagement rather than solely focusing on aspects of the work environment. We call this disposition *engageability* and distinguish it from engagement as a current state or set of behaviors.[13] Academics have started to look at how innate characteristics, such as personality, can determine the likelihood that an employee will be engaged at work. CEB research has found that engageability is associated with increased discretionary effort, better job performance, high-potential status, and prosocial behavior, as well as decreased withdrawal, deviance, and theft.[14] Leaders with high engageability also tend to do a better job of engaging their teams.[15]

Engageability can be considered a set point from which a person's (state) engagement varies in response to various situations and work environments. Engageable people are more likely to be engaged at work because of who they are in addition to how they perceive and interact within their work environment. However, that is not to say that organizations simply need to employ a workforce with high-engageability levels. In fact, engageability and engagement are not the only ways to assess the value of employees. Other employee characteristics, such as technical skill, leadership capability, or critical knowledge, are just as—if not more—important, and can often compensate for low engageability. Moreover, if the work environment were to change and become universally undesirable, any employee (including those with high engageability) would likely experience low work engagement. Conversely, employees who have low engageability can still attain high engagement levels under the right circumstances.

However, the way organizations work to follow up and engage with these different personality profiles is critical. Our research shows that an individual's engageability influences the work conditions that most strongly influence their engagement. for example, low-engageability people are much more engaged by a supportive environment, whereas high-engageability individuals are more engaged when there are opportunities for growth and meaningful work.

Understanding the profile of your workforce and how this relates to engagement can give you an additional way to prioritize the organization's efforts to improve engagement and prioritize which employee segments to address. A gap analysis of engageability versus actual engagement scores, for example, can help your organization pinpoint areas of the business with the greatest potential for improvement, allowing for more targeted, higher-return engagement interventions. Whereas most organizations simply focus on the gap between department engagement scores to average engagement across the organization, this comparison does not indicate where there is the greatest potential for change.

Layering engageability information over annual engagement survey results enables organizations to zero-in on the functions, locations, and departments where average engageability is high, yet actual engagement is low (as depicted in the lower-right quadrant of Figure 35.1). Not only are these employees at a greater risk of leaving the organization, but they are also a source of missed potential in terms of engagement and performance. Prioritizing business units with the largest gap between engageability and actual engagement would enable organizations to gain a competitive edge by making smarter investments that are more likely to result in improved employee engagement, performance, and retention.

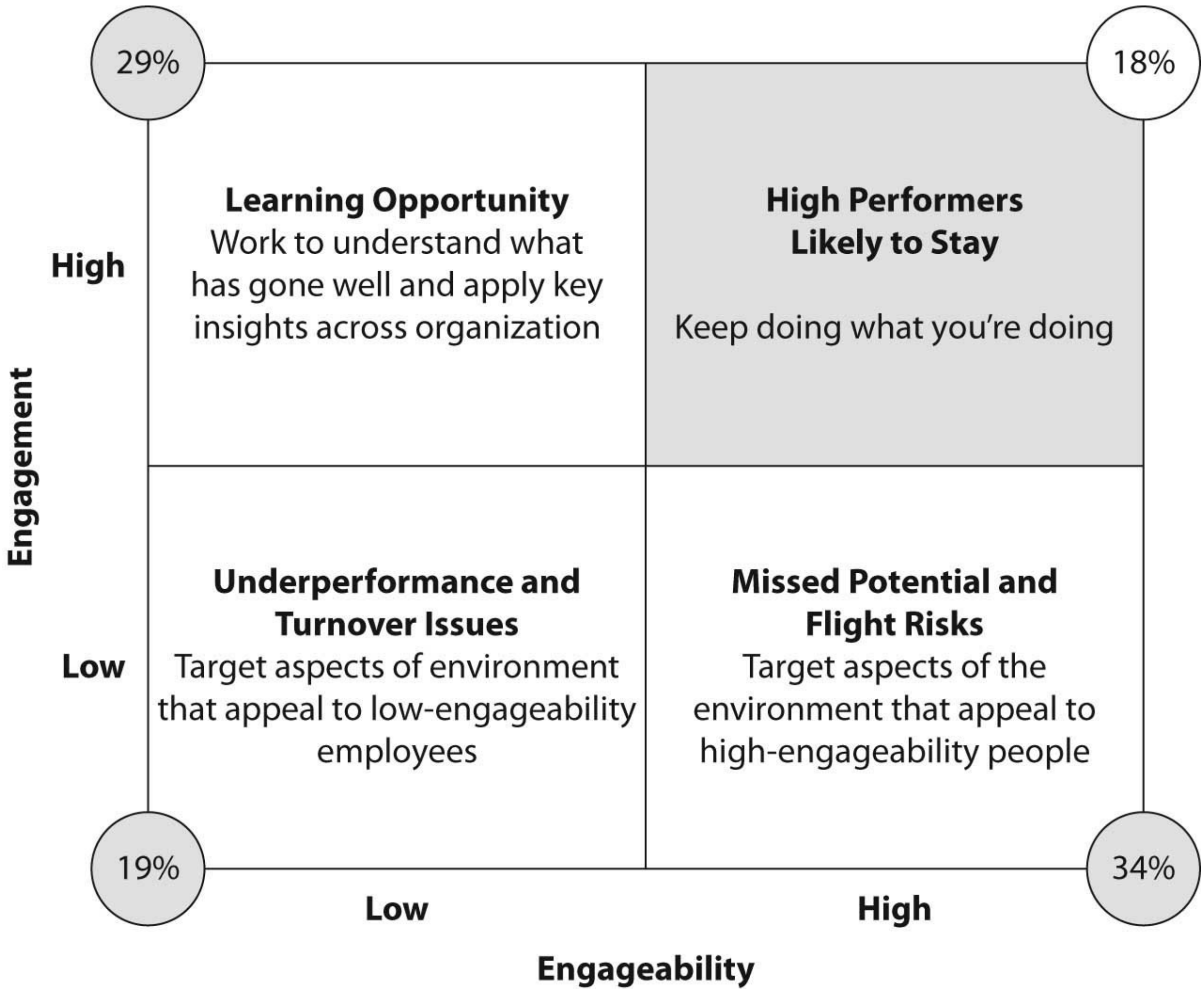

Figure 35.1 Workforce Engagement 2013 Quartiles Plotted Against 2014 Return on Assets (Industry-Adjusted) and the 2014 American Customer Satisfaction Index

Source: 2015 CEB Engagement Matters Study.

Moving Beyond Engagement to Enhance Organizational Performance

While focusing on employee engagement is a critical strategy in improving both talent management and business outcomes, this is increasingly failing to be enough.

Over the past 15 years, doubts about the return on investment of employee engagement have started to surface. With headlines like, *The Dark Side of Employee Engagement,*[16] *Employee Engagement: An Epic Failure?,*[17] and *The Annual Employee Engagement Survey Is Dead,*[18] it becomes clear that there is some concern and perhaps disillusionment about the value of employee engagement investments.

CEB research shows that postrecession employee engagement levels have reached all-time highs, but organizations are having trouble converting that engagement into stronger business performance. In a CEB survey of business leaders, 80 percent felt that their engagement initiatives were not driving business outcomes at their companies.[19] Leaders and CHROs realize that engagement remains important. However, managing engagement alone is not sufficient to achieve successful business outcomes in today's complex work environment.

Focus on Agility

The workplace has changed considerably in the last decade. Rapid and continuous change is now the new normal for the majority of organizations and their employees. CEB research indicates that 73 percent of organizations are expecting to see more change initiatives in the next three years, 63 percent of employees told us that their own objectives are changing more frequently compared to three years ago, and organizations will undergo five enterprise changes in three years on average.[20]

CEOs recognize that in this environment, one of the most important attributes of an organization is agility. In fact, 81 percent of business heads feel that the most important factor in ensuring that their organization's performance is at the highest level over the next three years is ensuring their organization/department is adaptive and agile.[21]

Agility is proving to play a critical role in organization success. CEB's own research shows that agile organizations are almost three times more profitable than agility laggards.[22]

CEB defines *agility* as the speed and success with which an organization and its workforce identifies and responds to opportunities and adapts to changes. In other words, it's not just about the reactive component of being able to adapt to change; for example, a quick response to a regulatory change or competitive change. It is also important to actively seek opportunities to change for the purpose of staying ahead of the competition and anticipating the need for change before it arrives.

Having an agile culture (with the emphasis on culture rather than agile employees) is a critical component in this, where employees have the information they need to proactively solve problems, have strong networks, and are empowered by leaders. But agility has to go beyond ensuring that the workforce can respond to problems; there also need to be agile strategies, work processes, and management practices. Additionally, organizations need to consider the external environment of suppliers, customers, competitors, and innovations,[23] enabling them to stay ahead in a changing environment.

Agility has now become an essential building block for organization performance. The most progressive organizations are incorporating measurement of agility into their workforce surveys. This enables leaders to understand the extent to which the organization culture is agile and adaptive, and to focus on making changes in areas that may derail organizational success.

The Role of Alignment

In addition to continuously changing, the work environment has become increasingly more complex, and organizations are much more matrixed and global than they were in the past. Decision making has become less straightforward. Employees are more geographically dispersed with more work being done globally and virtually; our research shows that 57 percent of employees say they are doing more work with colleagues in other locations. Work involves greater collaboration; 60 percent of employees coordinate with a minimum of 10 people to complete their work. Work is more matrixed; 67 percent of employees say they are working with people from different teams and departments.[24] In this environment, it is more difficult for a top-down management style to be effective. As work becomes more horizontal and distributed, it makes it harder for leaders to connect employees with corporate priorities. Yet without this connection, where engaged employees spend their time on work connected to the goals and priorities, organizations won't see the full potential of employee engagement.

Goal Alignment

Alignment is critical for driving the workforce toward the right goals and outcomes, but it's increasingly hard to achieve when an organization struggles with complex decision making, increasing change, and heavily matrixed work. CEB defines *alignment* as the clarity of the link among the actions of individuals, teams, leaders, and the goals of the organization. On average, 60 percent of highly engaged employees are not aligned with company goals. The employees with the highest discretionary effort and the greatest likelihood to stay with the organization—the ones you would expect would drive company performance the most—are unfortunately wasting their efforts on low business priorities.[25] The best strategy cannot come to life without employees applying their skills and energy toward it. Employees need to understand the connection between their work and goals with those of the company overall. This alignment enables the workforce to work toward the right goals and outcomes and adapt where necessary in ways so that workers can continue to achieve them.

Strategy-Specific Alignment

Goal alignment is critical, but it is also essential to have a culture that supports that strategy. The increasing frequency of large-scale change means that many organizations are facing challenges of aligning their corporate culture with their strategy. CEB research shows that 76 percent of CHROs indicated that their organizations are planning a culture change in 2017. Currently only 31 percent feel that their culture is in line with the desired culture, and thus many organizations see a need for greater cultural alignment.[26] This is a critical element that can be included in the workforce survey.

All businesses have critical *business priorities*—the essential elements of their strategy that drive success and achievement of their organizational goals. For example, a consumer electronics company will probably focus on building a culture of innovation. A hospitality or service organization is probably focused on customer-centricity. The most effective engagement strategies link explicitly to key business priorities (e.g., innovation, global expansion, quality).[27] CEB defines a *business priority* as a specific strategy or initiative that an organization deliberately selects to increase enterprise value. Some business priorities, such as customer-centricity or innovation, serve to define a company's identity. Others, such as mergers and acquisitions, are more a means to achieve other priorities.[28]

Workforce surveys have usually addressed cultural alignment by adding questions such as, "My company is truly innovative," or, "My company fosters a strong culture of customer focus." Unfortunately, questions such as these tend to get high scores, as there is often a positive response bias. Employees know that these are the organization's articulated priorities, know they are the focus of organizational activity, and are therefore likely to agree that this is the focus. However, an employee may agree that their organization is generally innovative, while at the same time feeling that new ideas are ignored. That is they agree despite the cultural barriers in place for maximizing on this priority. In order to truly understand whether the organization is executing well on its business priorities, leaders need to look to the organizational behaviors and capabilities that underlie these desired outcomes.

Different business priorities require very distinct sets of organizational capabilities and cultural attributes. For example, if a business strategy calls for innovation to enter new markets or launch transformative products, the workforce should be open to new ideas, willing to challenge the status quo, and tolerant of failed innovation attempts. In a culture where there is reprisal or low tolerance for failure, ideas and innovation will ultimately stall. Employees dial back on suggestions and make risk-averse decisions. CEB, recognizing these distinct capabilities, has looked further into research about organizations' stated business priorities, in academic and business journals, as well as our own research and best practice insights.

For any given business priority, there are some success factors that are more technical than others, and some that are supporting capabilities seen across the whole organization. Consider an organization looking to differentiate on customer-centricity (as shown in Figure 35.2). It needs to cultivate very specific functional and technical capabilities in its marketing and customer contact groups—such as leading customer and market research, customer data analytics, and first-call resolution procedures. In addition, to truly deliver on its promise of customer-centricity, that organization also needs to foster broader organizational capabilities such as knowledge sharing, collaboration, and understanding the customer perspective.

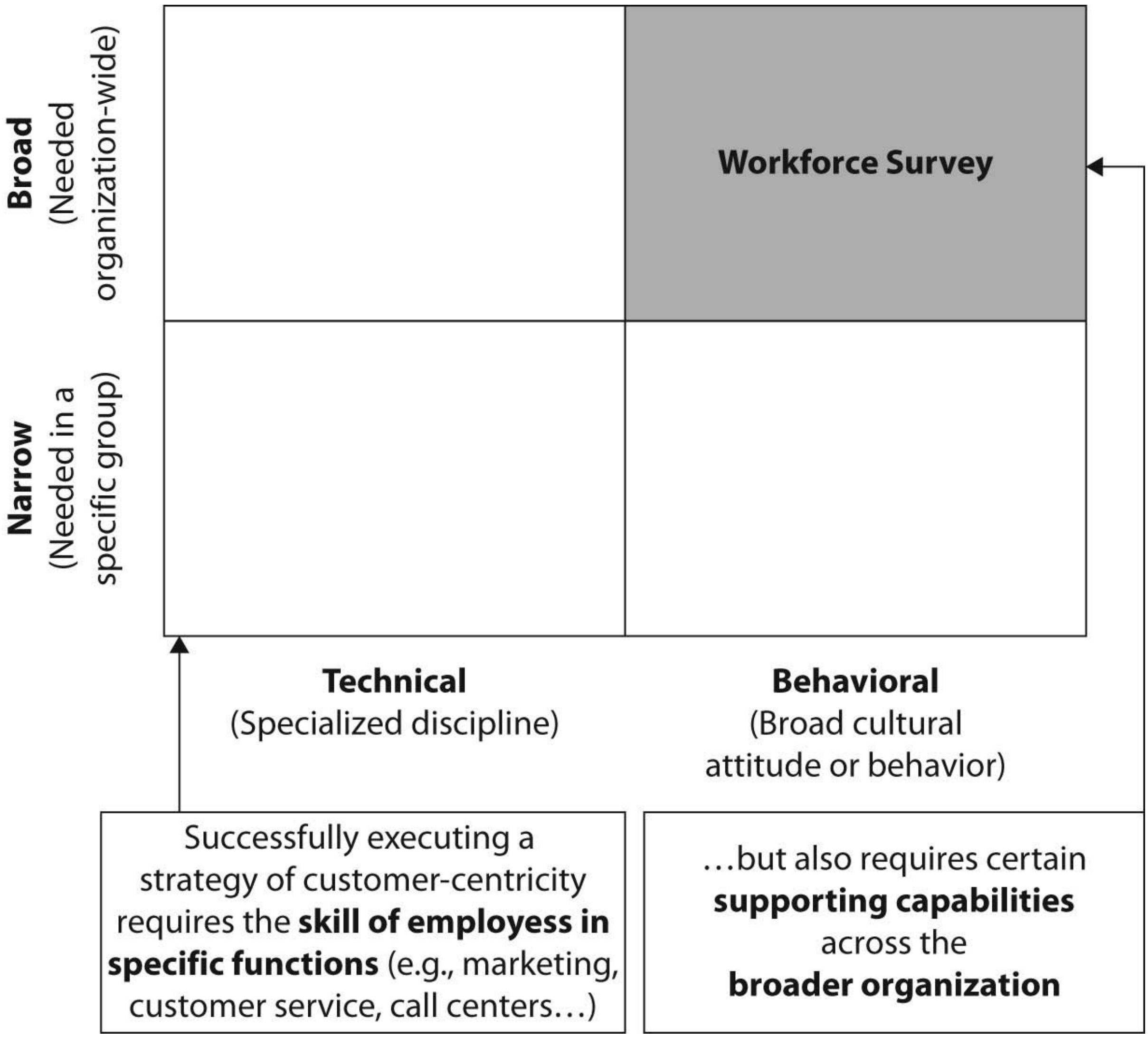

Figure 35.2 Organizational Capabilities for Customer-Centricity Assessed Through the Workforce Survey

Source: WSA Clear Advantage Business Priorities, White Paper, CEB. 2014.

If a business is to be innovative, it needs specialist technical expertise, for example, from research and development teams, from marketing, and perhaps from technical teams. Process elements need to work effectively such as stage-gating or pipeline management. Such organizations often focus on these process and technical aspects of innovation, yet more than this is needed. Our research shows that the largest obstacle to return on investment innovations is culturally based.[29] The most important driver in having a culture of innovation is the environment. Environmental factors include elements such as: an amount of tolerance for failure, orientation toward risk, being focused on learning and improvement, ensuring that there is collaboration between and across functions, being aware of the external market, and insights, intellectual curiosity, an environment where one can challenge assumptions and existing ways of doing things, one where people are open to new ideas. The workforce survey provides an opportunity to focus on the broader organizational capabilities that support the priority rather than narrower function-specific technical capabilities. By doing so, the survey has the power to identify the cultural barriers to innovation. Thus it provides a useful tool to help align employees to business priorities and to ensure that the organization is achieving its full potential.

Organizations start by identifying the business priorities that leaders and the overall organization care about most. For many large organizations or holding companies, multiple business priorities may need to be considered. In fact, many organizations will customize their workforce surveys based on one or two top business priorities or give different business units/companies the choice of selecting their own priorities. After decades of research on management practices from the world's leading organizations, CEB has been able to map out the capabilities needed to deliver on different business priorities. This means that the survey can include questions relating to the capabilities that are linked to these priorities. As a consequence, the execution of the resulting engagement strategy is then anchored to those priorities. Critically, following this action, plans are designed based not just on engagement drivers that have the highest impact on employee engagement, but on those attributes that align with the key business priorities. By reframing your survey to measure strategy-specific workforce capabilities, the survey automatically informs and resonates with the business objectives. It is at the center of what matters most to the organization and what leaders have already been asked to deliver. The survey and its follow-up become part of the day-to-day running of the business, as well as helping to inform the strategic planning process.

Beyond the Annual Engagement Survey

In concluding this chapter, it would be remiss not to acknowledge the changing face of today's workforce survey methods. New technology and an increasing pace of change mean that organizations are starting to take the pulse of employee attitudes on a more frequent basis. Therefore, there has been a move toward supplementing the annual survey with additional measurement. The latest and greatest IT solutions abound, allowing and encouraging the regular pulsing and monitoring of employee attitudes. These new approaches enable organizations to maintain up-to-date information about employee attitudes, generate additional insights, identify and respond more quickly to problems, evaluate the effectiveness of improvement actions, gain a better understanding of the impact of changes, make quick course corrections, and help effectively shape the engagement strategy.[30] It is not surprising that organizations that complement large-scale surveys with pulse surveys are 39 percent more likely to act based on engagement data compared to those that rely only on large-scale surveys.[31]

As we have seen in consumer research, an emerging trend in employee engagement is the use of alternative, nonsurvey data to predict engagement levels. Alternative data sources include text in employee work e-mails, calendar usage data, text in employee internal instant messages, publicly available social media data, and even employee movement data collected from sensors placed in electronic badges. Although most organizations are not currently using nonsurvey engagement methods, interest is growing.[32] Several large companies, including IBM and Twitter, have already started using sentiment analysis software to track the attitudes of their employees in real time, and vendors are beginning to offer similar services that analyze text data from employee e-mails and internal social networks. Discussions on using nonsurvey employee data are often accompanied by concerns about privacy, but a recent large CEB survey found that most employees are ambivalent or even in support of organizations using some of these new data sources to improve engagement.[33]

Despite the emergence of pulse surveys and nonsurvey engagement measures, the annual employee engagement survey still has a role to play. Employee surveys have the unique ability to provide deep insight across an organization and bolster culture by communicating to employees that their voice matters. The annual survey enables organizations to have a detailed view of the extent to which the culture is supporting the strategy, gives local managers reliable results at the deepest levels of the organization, enables local action, as well as broader input into the business planning cycle. Ninety-one percent[34] of organizations continue to undertake a large organization-wide survey on a regular basis.

Summary

Your workforce survey program can do much more than simply tell whether your workforce is engaged and to what degree. It is no longer enough to do an annual workforce survey that is just focused on getting all employees to care more, try harder, and stay longer. Employee engagement needs to be measured with precision, and focused on engagement with the work itself as well as commitment to the organization. Targeted, timely, data-based interventions that take into account the characteristics of your workforce—such as engageability—are critical. In addition to understanding the workforce conditions that can be leveraged to improve engagement, organizations can now focus on the parts of the organization where there is the largest gap between current and potential engagement levels.

Workforce surveys should do more than measure employee engagement; they should help a company implement strategy and achieve real and lasting changes in the buiness.

Additionally, there is also a need to ensure that survey efforts are directed toward mission-critical tasks and objectives. Organizations won't see the full potential of employee engagement if engaged employees spend their time on work that isn't connected to business priorities, or if they don't have the ability to anticipate and lead change. The key to improving and focusing on these cultural elements is to embed them in the survey design. An effective workforce survey program needs to focus not just on engagement, but on the culture. This will uniquely enable your organizations' success, providing leaders with critical information needed to deliver the strategy.

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Chapter 36

Using Diagnostic Assessment for Creative and Innovative Talent Management

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The Importance of Promulgating a Culture of Creativity Throughout the Organization

Why is it important to focus on building a worksite environment that nurtures creativity among employees? As pointed out in the global IBM survey of more than 1,500 chief executive officers from 60 countries and 33 industries worldwide, chief executives believe that, "more than rigor, management discipline, integrity or even vision successfully navigating an increasing complex world will require creativity" (NYSE: IBM). The study further states:

> Leaders will need to be creative (solve problems in new and useful ways) to stay abreast of rapid change. Further, they will need to orchestrate and encourage creativity across all the levels for which creativity is important. They will need to identify and develop creativity in individuals, build and nurture creativity in teams and set the culture and align processes to promulgate creativity throughout the whole organization.

Figure 36.1 summarizes the IBM survey results.

Figure 36.1 IBM 2010 Global CEO Study Results

Skilled Internal Talent Managers Promote an Environment of Creative Thinking, New Ideas, and New Solutions to Disruptive Technologies

Who are the key corporate players to generate environments that support creativity? In-house talent managers (typically line managers and human resources professionals) are supplanting external consultants as organizations realize the benefits of adding a talent manager unit to their corporate structure. The biggest benefit of building an in-house team is that you control the provider's time, activity, and quality. Often companies maintain in-house website designers, customer support specialists, contract negotiators, marketing experts, and so on. This chapter concentrates on the talent manager who can establish a creative thinking workforce to bring new ideas and new solutions to day-to-day challenges such as disruptive technology.

A disruptive technology is one that displaces an established technology and shakes up the industry or a groundbreaking product that creates a completely new industry. Harvard Business School professor Clayton M. Christensen coined the term *disruptive technology*. In his 1997 best-selling book, *The Innovator's Dilemma,* Christensen separates new technology into two categories: sustaining and disruptive. Sustaining technology relies on incremental improvements to an already established technology. Disruptive technology lacks refinement, often has performance problems because it is new, appeals to a limited audience, and may not yet have a proven practical application. A few examples of disruptive technologies are:

- The personal computer (PC) displaced the typewriter and forever changed the way we think, edit, and communicate.
- E-mail transformed the way we communicate, largely displacing letter writing and disrupting the postal and greeting card industries.
- Cell phones made it possible for people to call us anywhere and disrupted the telecom industry.
- The laptop computer and mobile computing made a mobile workforce possible and also made it possible for people to connect to corporate networks and collaborate from anywhere. In many organizations, laptops replaced desktops.
- Smartphones largely replaced cell phones and PDAs (personal digital assistants) and, because of the available apps, also disrupted: pocket cameras, MP3 players, calculators, and GPS devices, among many other possibilities. For some mobile users, smartphones often replace laptops.
- Cloud computing has been a hugely disruptive technology in the business world, displacing many resources that would conventionally have been located in-house or provided as a traditionally hosted service.
- Social networking has had a major impact on the way we communicate and—especially for personal use—has disrupted telephone, e-mail, instant messa-ging, and event planning (Rouse, 2016).

In his book, Christensen points out that large corporations are designed to work with sustaining technologies. They excel at knowing their market, staying close to their customers, and having a mechanism in place to develop existing technology. Conversely, they have trouble capitalizing on the potential efficiencies, cost savings, or new marketing opportunities created by low-margin disruptive technologies. Using real-world examples to illustrate his point, Christensen demonstrates how it is not unusual for a big corporation to dismiss the value of a disruptive technology because it does not reinforce current company goals, only to be blindsided as the technology matures, gains a larger audience and market share, and threatens the status quo (Rouse, 2016). A talent manager can educate key employees in ways to use their creative strengths to implement both their ability to come up with original and elaborate new ideas (divergent thinking) as well as their ability to analyze and choose the best solution for the problem (convergent thinking).

Ways Talent Managers Can Encourage Employee Creativity

When the talent manager encourages someone to step forward and share unique ideas, a culture of creative thinking is nourished. Following are specific talent manager behaviors that will encourage creative behavior:

1. Be approachable and allow your team members to contribute their thoughts and ideas without fear of rejection.
2. Provide an environment that is conducive to the growth of creativity. Encourage spontaneity and making mistakes (make mistakes quickly and learn from them even quicker), encourage smart risk-taking.

3. Conduct brainstorming sessions accepting that quantity of ideas breed quality. Off-the-wall or random ideas often lead to great solutions.
4. Institute the diagnostic assessment process: analyze the circumstances to ascertain the *real* issue; develop expected outcomes to determine a course of action; foster the creative abilities of a *whole team* which is likely to produce a richer selection of creative ideas and solutions because diverse group members collectively possess knowledge and a variety of perspectives not found in just one person; implement and evaluate the actions taken.
5. Foster teamwork and team bonding, increase workplace engagement and interaction, pay attention to employee morale and happiness; highlight increased workplace problem solving and productivity.
6. Establish a climate conducive to creative thinking and problem solving modeled upon Amabile's (1998) six practices as summarized below:
   a. Match people with the right problem-solving experiences that challenges or stretches them intellectually. This enhances creativity because it supports expertise and intrinsic motivation. Pay attention to the amount of stretch as too little challenge leads to boredom and too much challenge leads to being overwhelmed.
   b. Grant employees the freedom to design and select the activities they believe are best for specified outcomes.
   c. Provide reasonable time and funding for enhancing creativity as these variables can either support or stifle creativity.
   d. Establish groups that are mutually supportive and diverse in terms of backgrounds, perspectives, and creative strengths.
   e. Develop a safe atmosphere that encourages people to think freely.
   f. Encourage information sharing and collaboration as these lead to the development of expertise needed for creativity.
7. Encourage a mind set of continuous learning; model habits of curiosity, observation, listening, and generating creative ideas.
8. Model seeking multiple options rather than settling upon one solution; encourage looking for additional options to choose the best from several options; do not evaluate options too early.
9. Establish lunchtime meetings of small groups to engage in creative thinking and share ideas for how those ideas could be applied to the organization; provide opportunities for employees who do not normally interact with one another to meet.
10. Foster a permissive atmosphere that supports individuality and humor, and where mutual respect, trust, and commitment are expected.
11. Create a stimulating environment offering journals, artwork, games, and other items—some of which may not be directly related to the business—to serve as sources of inspiration.
12. Encourage employees to take reasoned risks, rewarding them for creative ideas and not penalizing them when they fail. This approach enables people to more readily take on challenging assignments by discussing in advance any foreseeable risks and creating the necessary contingency plans.
13. Foster different points of view through outside perspectives including customers, vendors, and speakers from other industries or consumers using a competitor's products or services.

Dealing with Uncertainty

In an era of uncertainty, economic turmoil, and unprecedented change, the need for a new skill set has emerged, and at the nucleus of this new skill set is creativity.

Recent research studies reveal that creativity is vital at every level of the workplace environment—from the most basic to the boardroom and at the level of the individual to the organization.

Importance of Workplace Creativity

The more one engages in creative thinking, the better one becomes at it; novel ideas tend to generate additional unique ideas. The current requirement is that a creative idea must also be appropriate, useful, and actionable. It must somehow influence or improve the way things are done in the organization and as noted in discussions by Reisman and colleagues (2014), "generating unique and novel ideas are one side of the coin—creativity. Ultimately, you can come up with a brilliant creative idea, but if you don't go the next step about how to implement it—the innovation component—what's the purpose?"

Research-based approaches to fostering creative environments that support innovation include:

1. The Boston Consulting Group has been running an annual strategy survey for the last eight years. For seven out of eight years creativity and innovation have been the top-ranked strategic imperative. Furthermore, the group found that innovation and creativity that enable the development of new ways of working ensure profitability.
2. The 2009 NESTA Everyday Innovation survey proposed that creativity was an integral part of an organization's original and useful ways of solving the problems through producing ideas that are original and useful in order to solve problems and exploit opportunities.
3. Considerable evidence now suggests that employee creativity can make a substantial contribution to an organization's growth and competitiveness (Baer and Oldham, 2006).
4. An article in *The Economist* suggested that the biggest challenge facing organizations is identifying and developing individuals with "brainpower (both natural and trained) and especially the ability to think creatively" (Frymire, 2006).
5. Gilson, Mathieu, Shalley, and Ruddy (2005) found that teams that were more creative scored higher on objective measures of performance and were also found to work more effectively within budgets.
6. Katzenbach and Smith (2003) found that more creative teams are willing to employ creative thinking and find innovative solutions to problems.
7. The Ernst and Young (2010) Connecting Innovation to Profit report says that creative companies harness the creativity within the organization to improve or invent new products, processes, and services. Also in the same Ernst and Young report it was found that highly successful companies realize that: The ability to manage, organize, cultivate, and nurture creative thinking is directly linked to growth and achievement. Further, the report highlighted that Innovation "for the sake of it" is often essential, but the speed at which a fast-growth company moves forward will depend on its ability to connect creativity to profit.
8. In a recent study of 190 agile companies, Bottani (2010) found that the companies' flexibility and speed of reaction were strongly dependent on creativity. Similar results have been found in a study of agile companies by BTM where agile firms were prepared to innovate and experiment with creative approaches to emerging technologies, work practices, product or service concepts, and customer segments or product markets.
9. The Accenture Institute of High Performance (2003–2010) found that high-performing organizations created powerful strategies that encouraged deep insight, originality, and the engagement of creativity across all employees.

Diagnostic Assessment

Why is an understanding of diagnostic assessment important for developing creative and innovative talent managers who can implement and nurture a creative environment for corporate success?

We too often work on the *wrong* problem. The design of diagnostic assessment involves:

- Identifying the *real* problem.
- Hypothesizing possible reasons for the real problem.
- Generating possible solutions.
- Establishing expected outcomes of designated activities.
- Implementing selected activities.
- Evaluating the results.

The diagnostic assessment process is a crucial skill for talent managers who are active participants in making strategic decisions that directly impact the creative work environment of their worksite. They are actively involved in an organization's effort to build a structure or process to support creativity and innovation thus helping to generate ideas that need to be vetted, resourced, championed, and eventually become innovations. Talent managers charged with creating an environment to nurture creativity and innovation have a variety of titles such as chief innovation officer, director of creative initiatives, chief creativity officer, and so on. All these roles have one thing in common; namely, to create an organizational environment that identifies, nourishes, and retains the most talented employees.

To this end, we suggest that the pathway from worksite creativity to product innovation, for growing creative and innovative talent management leaders who in turn will foster creativity throughout the organization, involves the "diagnostic assessment process" presented in this chapter, which is the implementation phase of growing creative and innovative talent management. Generating unique, novel ideas is one side of creative problem solving, but if these ideas end up in cyberspace, what's the point? Innovation is the result of creativity and bringing the creative ideas to reality. Diagnostic assessment provides a structured approach for identifying, developing, and enhancing corporate talent managers.

Diagnostic Assessment, Creativity, and Corporate Culture

Employees look for a creative culture to improve life at work and away from work. However, the results of the 2007 Ipsos Public Affairs Poll indicated the existence of a “creativity gap” in the United States. Employees believe they are creative (88 percent) but they do not find their positions at work (63 percent), or their companies (61 percent) to be creative. The same poll indicated that 27 percent of employees would change jobs, even if it meant less money, to be more creative at work, and this was especially true for millennial employees (ages 18–34) where 37 percent were willing to make the change. Twenty-nine percent of those surveyed indicated they would change where they live if it meant being part of a more creative community (creativeeconomics.org). Talent managers need to develop strategies to address the creative needs of all workers and especially the younger generation. Talent managers stand at the front line of the battlefield to fill the creativity gap at their organizations.

The 2016 Pulse of Talent survey conducted by Ceridian, a Canadian global human capital management technology company serving more than 50 countries, tapped North American employees to determine how organizations attract, engage, and retain top talent. The Pulse of Talent study results revealed how culture enhances the work life experience. When a company’s culture is aligned with its values, it attracts those who feel comfortable in that culture. This helps companies to motivate people and achieve a higher level of employee engagement and therefore performance. As the world of work rapidly evolves, power is shifting from employer to employee. Employees push organizations to be better every day; they demand that employers create an environment they want to work in. Employees look for great culture to improve life at work as well as when they are away from work (http://www.ceridian.com/talent-management/pulse-of-talent.html?gclid=CKCSypKu5dACFYSNswody0AHRQ).

Clusters of employees form teams, and these teams are a reflection of the corporate culture. A diagnostic assessment can verify the creative strengths and creative gaps within a team structure. The effective creative team characteristics shown in Table 36.1 are an integration of factors representing creative thinking that has emerged from the creativity research (Torrance, 1984; Guilford, 1950). Eleven of these factors form the basis of the Reisman diagnostic creativity assessment (RDCA), a free iTunes Apple App, which is a quick self-report assessment to provide a profile of creative strengths and expose weaker areas that an individual may wish to improve (or not); the focus is on self-awareness. The RDCA is designed to be used as a diagnostic tool to identify individual creative strengths. As such, it provides an instant creativity score that identifies those creativity factors where an individual may already be strong, as well as those that they may wish to strengthen. Table 36.1 provides a profile of creative teams.

Characteristics	Description
1. Clear purpose	The vision, mission, goal, or task of the team has been defined and is now accepted by everyone. There is an action plan.
2. Informality	The climate tends to be informal, comfortable, and relaxed. There are no obvious tensions or signs of boredom.
3. Participation	There is much discussion, and everyone is encouraged to participate.
4. Listening	The members use effective listening techniques such as questioning, paraphrasing, and summarizing to get out ideas.
5. Civilized disagreement	There is a disagreement, but the team is comfortable with this and shows no signs of avoiding, smoothing over, or suppressing conflict.
6. Consensus decisions	For important decisions the goal is substantial, but not necessarily unanimous agreement through open discussion of everyone's ideas, avoidance of formal voting, or easy compromises.
7. Open communication	Team members feel free to express their feelings on the tasks as well as on the group's operation. There are few hidden agendas. Communication takes place outside of meetings.
8. Clear roles and work assignments	There are clear expectations about the roles played by each team member. When action is taken, clear assignments are made, accepted, and carried out. Work is fairly distributed among team members.
9. Shared leadership	While the team has a formal leader, leadership functions shift from time to time depending upon the circumstances, the needs of the group, and the skills of the members. The formal leader models the appropriate behavior and helps establish positive norms.
10. External relations	The team spends time developing key outside relationships, mobilizing resources, and building credibility with important players in other parts of the organization.
11. Style diversity	The team has a broad spectrum of team-player types including members who emphasize, attention to task, goal setting, focus on process, and questions about how the team is functioning.
12. Self-assessment	Periodically the team stops to examine how well it is functioning and what may be interfering with its effectiveness.

Table 36.1 Characteristics of an Effective Creative Team

Adapted from: Parker, Glenn. *Team Players and Teamwork: The New Competitive Business Strategy;* San Francisco: Jossey-Bass, 1990, pp. 33, 61–87. Available at http://www.seattlecentral.edu/faculty/baron/Fall%20Courses/ITP%20161/ITP161CharacteristicsofEffectiveTeam.htm.

Table 36.2 presents the creativity factors tapped by the RDCA that are built upon the Torrance tests of creative thinking (TTCT) (Torrance, 1984) which itself emerged from Guilford's work (Guilford, 1950). The RDCA is diagnostic in contrast to those assessments that are predictive.

Factor	Definition
Originality	Presents unique and novel ideas; creates the unusual
Fluency	Generates many ideas
Flexibility	Generates many categories of ideas
Elaboration	Adds detail (drawing, speaking, writing)
Tolerance of ambiguity	Comfortable with the unknown
Resistance to premature closure	Keeps an open mind
Convergent thinking	Analyzes, evaluates, comes to closure
Divergent thinking	Generates many ideas/solutions (related to fluency)
Risk-taking	Venturesome, daring, exploratory
Intrinsic motivation	Satisfied by inner pleasure, ability to delight in a task accomplished
Extrinsic motivation	Needs reward or reinforcement

Table 36.2 RDCA Factors (See Appendix for RDCA interpretation)

With permission from Tanner, D., and Reisman, F. (2014), p. 25.

Once team members have knowledge of their individual RDCA results, they can then begin to work together as a team to utilize and strengthen their collective creative abilities. The role of the corporate talent manager in the beginning of this process would be that of a facilitator. Tanner and Reisman (2014) identify tools, processes, and frameworks that will enhance creative thinking, and creative problem solving, as well as how corporations can promote a culture that is rich in creativity and innovation.

Tanner and Reisman (2014) suggest categorizing creative thinking into three distinct categories: pattern-breaking tools; idea-generating processes, and focused-thinking frameworks (see Figure 36.2). Pattern-breaking tools are, "… deliberate, systematic tools for creative thinking that help us break away from normal thinking patterns" (p. 47).

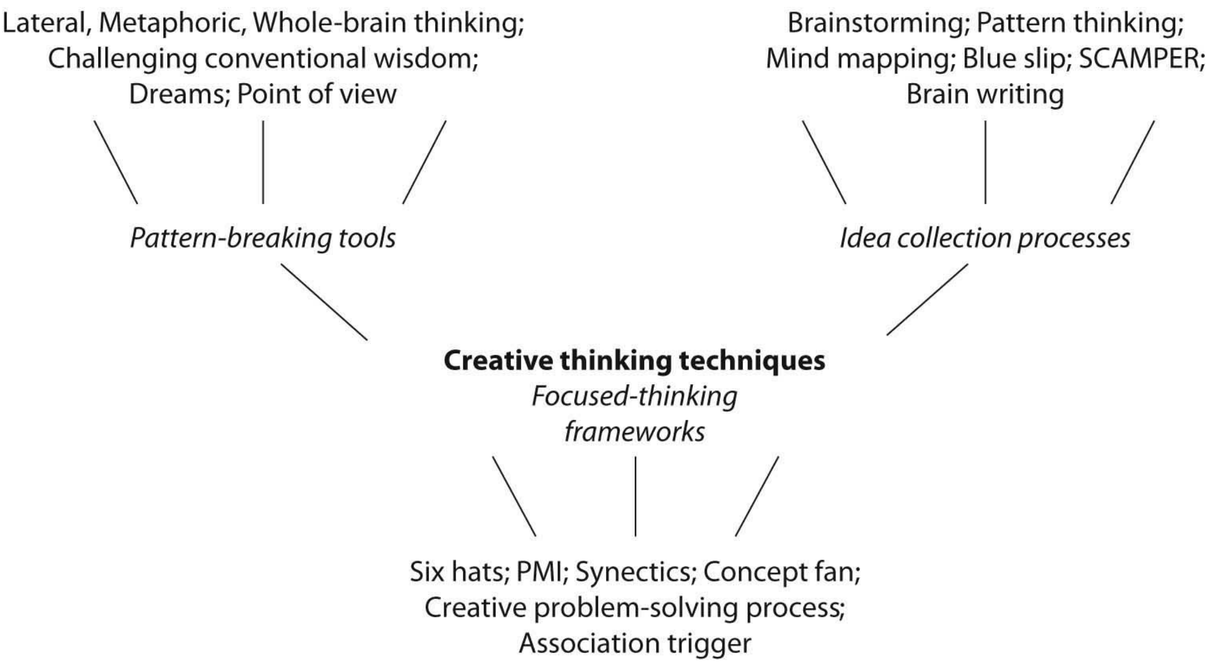

Figure 36.2 Creative Thinking Techniques

With permission from Tanner, D., and Reisman, F. (2014), p. 65.

According to Tanner and Reisman (2014), "The success of a creative problem solving session will depend on the quality of the design meeting" (p. 87). The facilitator, or in this case, the corporate talent manager, can contribute greatly toward enabling employees to create successful problem-solving sessions. The authors state, "Good facilitators keep the process on track, improvise process changes as required, sense the best creativity tools to apply, let everyone have equal time, and assist in harvesting team output" (p. 88). Figure 36.3 details the components that are necessary to incorporate into the creative problem-solving process.

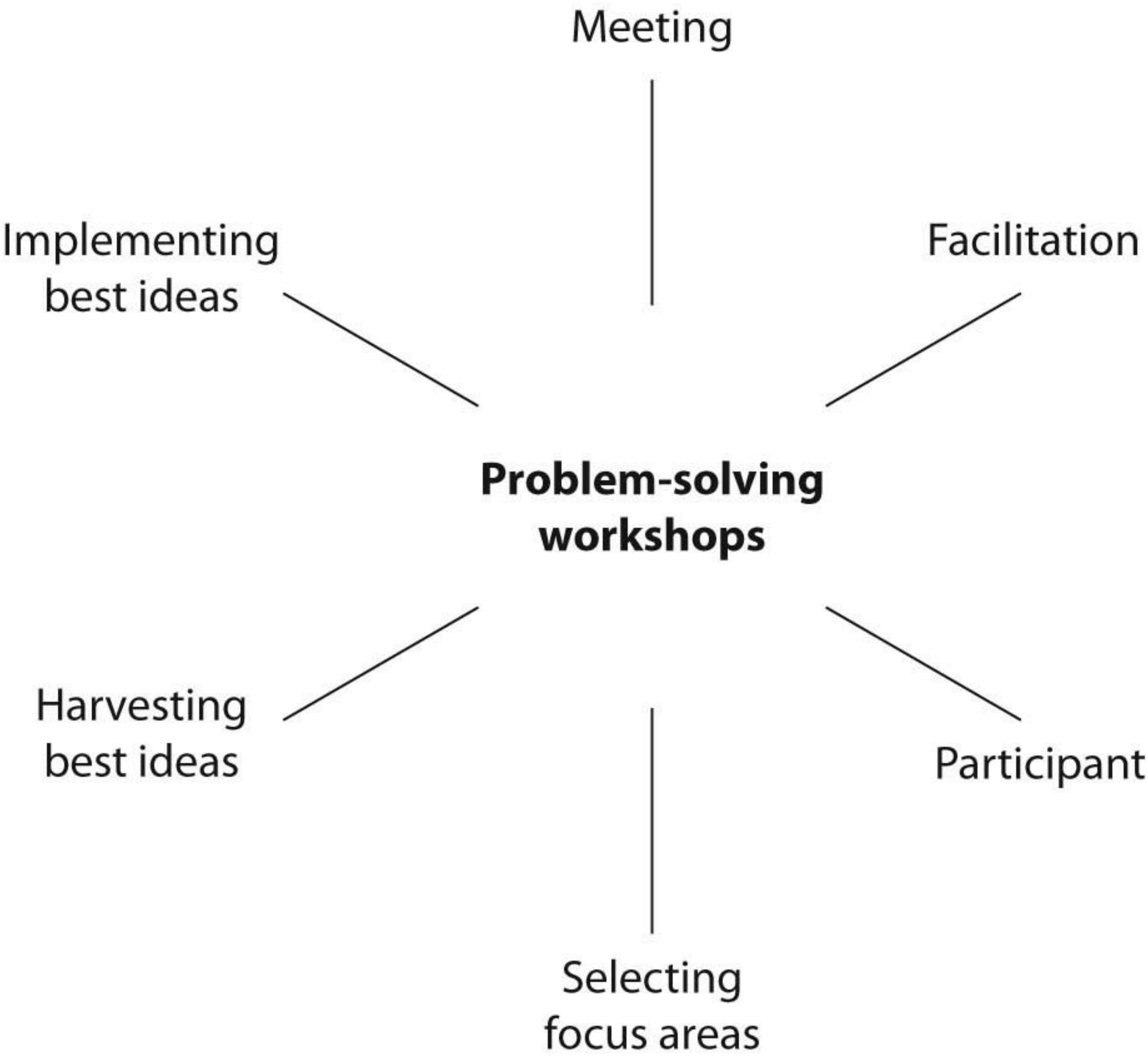

Figure 36.3 Components of the Creative Problem-Solving Process
With permission from Tanner, D., and Reisman, F. (2014), p. 68.

In line with the adage, "build it and they will come," it's imperative for corporations to create a work environment that supports a sustainable creative environment. Tanner and Reisman (2014) state, "... it's necessary to educate employees in the skills of creative thinking and innovation, and to create a supportive environment for them to practice and apply their knowledge on the job" (p. 123).

There are benefits to providing a creative environment in the workplace. Robinson and Stern (1997) state, "The tangible results of corporate creativity, so vital for long term survival and success, are improvements (change to what is already done) and innovations (entirely new activities for the company)" (p. 11). In their book, *Corporate Creativity*, the authors discuss when E. Paul Torrance worked for the U.S. Air Force during the Korean War. He was tasked with the development of a training program that would prepare pilots and their crews to survive extreme conditions. Established training courses provided mitigation techniques for surviving hostile environments, including information from POWs (both those who were captured and those who had managed to escape), and even simulated activities. But Torrance found that no matter the extent of training that service members received, those who had successfully survived extreme conditions had, in effect, created their own survival strategy. Torrance stated about his experience, "Creativity and invention are adaptive forces which have perhaps been given too little attention in connection with problems of survival and survival training" (as cited in Robinson and Stern, 1997, p. 6).

In her book, *Mediating with Picasso*, Neilson (2011) presents information about mediating the creative process. It can be suggested that the primary role of the corporate talent manager is to facilitate creative activities in the workplace that don't solely revolve around the creation of new products, processes, or procedures. Neilson (2011) states, "... creativity is about more than just product innovation. Creativity also involves thoughts, concepts, designs, wonderings, decisions based on new criteria, new perceptions, and new resolutions to existing problems" (p. 95). Following are questions concerning successful talent manager characteristics:

- Are you flexible and open to new ideas that may be offered by employees?
- Do you enjoy nourishing others' creativity?
- Will you tell it like it is to your boss when obstacles prevent a creative environment?
- Can you diagnose a discrepancy between corporate culture and employee values, and reconcile the two?
- Do you listen while withholding judgment?
- Do you model creative thinking?
- Do you support employees taking smart risks when appropriate?
- Do you model grit (perseverance)?
- Which of these characteristics do you believe represent you? Are there characteristics that you do not possess and would like to begin to develop?

Corporate talent managers must help to bring about creativity awareness in the workplace, but also act as a catalyst to support and more importantly create a sustainable workplace creative environment. This can come about when the talent manager is aware of his or her creative strengths as well as engaging in developing creative thinking strengths in others.

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Appendix

Reisman Diagnostic Creativity Assessment (RDCA) is available at https://itunes.apple.com/us/app/reisman-diagnostic-creativity/id416033397?mt=8.

RDCA interpretation:

The individual RDCA score interpretation table (see Table 36.3) is a diagnostic tool that provides a profile of one's RDCA assessment, the meaning of results reported as a percentage on the related creativity factors scale, and an indication of strong creativity characteristics and those that one might wish to enhance.

RDCA Score × Factor (Maximum points possible)	Equivalent %	Classification	Factor Definition	RDCA Items Related to Factors
Total score (240 possible score)	**Score of:**			
	204–240 85%–100%	**Very high**		
	144–203 60%–84.5%	**Moderately high**		
	120–143 50%–59.5%	**Average**		
	96–119 40%–49.5%	**Low**		
	0–95 0%–39.5%	**Very low**		
Originality (36 possible score)	**Score of:**		Unique and novel	3. I regularly come up with novel uses for things. 4. I come up with new and unusual ideas. 8. I come up with unique suggestions, thought up wholly or partly independently of other people. 13. I think in unconventional ways. 20. I usually think out of the box. 29. I am very innovative.
	30–36 83%–100%	**Very high**		
	22–29 61%–80.5%	**Moderately high**		
	18–21 50%–58%	**Average**		
	14–17 39%–47%	**Low**		
	0–13 0%–36%	**Very low**		

Table 36.3 Individual RDCA Score Interpretation (continued on next page)

RDCA Score × Factor (Maximum points possible)	Equivalent %	Classification	Factor Definition	RDCA Items Related to Factors
Fluency (18 possible score)	**Score of:**		Generates many ideas	7. I can generate many relevant solutions. 28. I can rapidly produce a lot of ideas relevant to a task. 36. I generate many ideas when I draw.
	15–18 83%–100%	**Very high**		
	11–14 61%–78%	**Moderately high**		
	9–10 50%–55.5%	**Average**		
	7–8 39%–44.4%	**Low**		
	0–6 0%–33.3%	**Very low**		
Flexibility (18 possible score)	**Score of:**		Generates many categories of ideas	14. I come up with different categories of approaches to solving problems. 21. I come up with different types of responses to a situation. 31. I generate different categories of uses for a specific item.
	15–18 83%–100%	**Very high**		
	11–14 61%–78%	**Moderately high**		
	9–10 50%–55.5%	**Average**		
	7–8 39%–44.4%	**Low**		
	0–6 0%–33.3%	**Very low**		

Table 36.3 Individual RDCA Score Interpretation (continued on next page)

RDCA Score × Factor (Maximum points possible)	Equivalent %	Classification	Factor Definition	RDCA Items Related to Factors
Elaboration (24 possible score)	**Score of:**		Adds detail	9. I fill in details when drawing. 19. I tend to elaborate on my ideas when speaking. 27. I tend to keep adding to my drawings. 39. I tend to elaborate on my ideas when writing.
	20–24 83%–100%	**Very high**		
	15–19 62.5%–79%	**Moderately high**		
	12–14 50%–58%	**Average**		
	9–11 37.5%–45.8%	**Low**		
	0–8 0%–33.3%	**Very low**		
Tolerance of ambiguity (18 possible score)	**Score of:**		Comfortable with the unknown	24. I can tolerate the unknown. 35. I can cope with uncertainty. 40. I generate many ideas.
	15–18 83%–100%	**Very high**		
	11–14 61%–78%	**Moderately high**		
	9–10 50%–55.5%	**Average**		
	7–8 39%–44.4%	**Low**		
	0–6 0%–33.3%	**Very low**		

Table 36.3 Individual RDCA Score Interpretation (continued on next page)

RDCA Score × Factor (Maximum points possible)	Equivalent %	Classification	Factor Definition	RDCA Items Related to Factors
Resistance to premature closure (24 possible score)	**Score of:**		Keeps an open mind	1. I keep an open mind. 11. When faced with a problem, I evaluate possible solutions and select the best one. 23. I gather as much information as possible before making a decision. 32. I keep listening even when I think I know what someone is saying.
	20–24 83%–100%	**Very high**		
	15–19 62.5%–79%	**Moderately high**		
	12–14 50%–58%	**Average**		
	9–11 37.5%–45.8%	**Low**		
	0–8 0%–33.3%	**Very low**		
Divergent thinking (18 possible score)	**Score of:**		Generates many solutions (related to fluency)	6. I follow many paths to come up with possible solutions. 18. I come up with multiple possibilities when analyzing a problem by looking at every angle of the situation. 37. I prefer problems where there are many or several possible right answers.
	15–18 83%–100%	**Very high**		
	11–14 61%–78%	**Moderately high**		
	9–10 50%–55.5%	**Average**		
	7–8 39%–44.4%	**Low**		
	0–6 0%–33.3%	**Very low**		

Table 36.3 Individual RDCA Score Interpretation (continued on next page)

RDCA Score × Factor (Maximum points possible)	Equivalent %	Classification	Factor Definition	RDCA Items Related to Factors
Convergent thinking (18 possible score)	**Score of:**		Comes to closure	5. I can make a decision when there are multiple possibilities or choices. 26. I can select one solution from many possibilities. 30. I do well on standardized tests that require a single correct response.
	15–18 83%–100%	**Very high**		
	11–14 61%–78%	**Moderately high**		
	9–10 50%–55.5%	**Average**		
	7–8 39%–44.4%	**Low**		
	0–6 0%–33.3%	**Very low**		
Risk-taking (24 possible score)	**Score of:**		Adventuresome	2. I am willing to tackle challenging tasks even when success is uncertain. 10. I am afraid of the unknown. 16. I share and advocate ideas I believe in, even when those ideas are unconventional. 34. I am willing to take calculated risks.
	20–24 83%–100%	**Very high**		
	15–19 62.5%–79%	**Moderately high**		
	12–14 50%–58%	**Average**		
	9–11 37.5%–45.8%	**Low**		
	0–8 0%–33.3%	**Very low**		

Table 36.3 Individual RDCA Score Interpretation (continued on next page)

RDCA Score × Factor (Maximum points possible)	Equivalent %	Classification	Factor Definition	RDCA Items Related to Factors
Intrinsic motivation (24 possible score)	**Score of:**		Inner drive	12. I do well on activities or tasks that I find personally challenging.
	20–24 83%–100%	**Very high**		17. I engage in activities that are personally satisfying.
	15–19 62.5%–79%	**Moderately high**		25. Curiosity, enjoyment, and interest energize me to complete a task.
	12–14 50%–58%	**Average**		38. My motivation to perform well does not depend on external recognition.
	9–11 37.5%–45.8%	**Low**		
	0–8 0%–33.3%	**Very low**		
Extrinsic motivation (18 possible Score)	**Score of:**		Needs reward or reinforcement	15. I will use more effort on an activity or task if there is some kind of incentive.
	15–18 83%–100%	**Very high**		22. I perform tasks better knowing there will be a reward or recognition.
	11–14 61%–78%	**Moderately high**		33. Knowing that I am going to be rewarded enhances my creativity.
	9–10 50%–55.5%	**Average**		
	7–8 39%–44.4%	**Low**		
	0–6 0%–33.3%	**Very low**		

Table 36.3 Individual RDCA Score Interpretation (continued)

Example: A total score of 240 means that you selected the highest scoring option for each item for 100 percent of the items. (Note: Some items—15, 22, 33—were reversed score, that is, selection "strongly disagree" was the highest scoring option instead of "strongly agree.")

Example: A score of 22 for the originality factor reflects that you obtained 61 percent of the possible 36 originality factor points composed of the 6 originality RDCA items.

Chapter 37

Characteristics of Innovative Individuals and Organizations

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With products, services, and consumer expectations evolving at an accelerating pace, companies have an increasingly narrow window to develop and introduce meaningful innovations that will influence their market standing. Recent decades have seen a flood of interest and initiatives focused on the role of innovation in organization success and market superiority. The deliberate application of ideas to add economic, organizational, and social value is central to driving business growth over both short- and long-term horizons. The ability to compete increasingly requires novel ways of improving margin—with the need for ongoing operating improvements, innovation, and creativity to enable companies to keep pace with and stay relevant in rapidly changing markets. Well documented by social scientists and business school researchers (e.g., Amabile, 1997), successful innovation is a consequence of individual capabilities and characteristics in interaction with favorable situational variables. The results of innovation can be seen most obviously at the level of products and services with positive market impact, but also in terms of how entire companies function (Apple and Google seem universally regarded in this light), and even the orientation of countries to support and cultivate innovation (e.g., Israel is surpassed only by the United States in the number of companies listed on the Nasdaq; Senor and Singer, 2011). Consequently, innovation is not just about research and development (R&D), creativity, or invention; these are all necessary, but real innovation involves the transformation of good ideas into revenue across all parts of the organization ecosystem—e.g., business model, organization strategy, readiness of human resources, department/functional capabilities, approach to cultivate and manage alliances—working together to generate new sources of value.

This chapter covers a range of individual, organizational, and leadership attributes associated with effective innovation outcomes. We first look at recent Korn Ferry research into the personal attributes of innovative people and then turn to organizational influences in terms of agile organizing structure and process, the contributions that can be made through targeted leadership practices and then to the role of organizational culture in setting the right context for innovation efforts. In the course of doing so, we provide illustrations that address both incremental and breakthrough disruptive approaches to innovation.

Common Obstacles to the Process of Innovation: Lessons from the Past

Looking back over history, we can see the power of innovation in driving economies forward. During the Great Depression, the concept of "category marketing" was invented. It has since delivered billions of dollars of revenue for the likes of Unilever and Procter & Gamble. Arguably, General Motors' greatest invention is not a car technology but the idea of loans to help people purchase cars. Nine years after launching this "loan product" in 1919 (in the middle of a recession), GM had sold 4 million contracts and vastly expanded the market for its cars. After the most recent economic downturn, *Economist* magazine calculated that 50 percent of growth came from innovation. Our experience is that organizational attempts at innovation often run the risk of applying cliché-like solutions that do not always lead to intended outcomes or that such attempts comprise fundamental misconceptions in the way innovation is managed:

1. *Organizing for success.* Ever since the invention of the modern corporation, the building blocks of profit have been process, specialization, mass production, and structuring for maximum efficiency. The irony is that these traits are the exact opposite of what encourages innovation. The conditions that encourage innovation—openness, time, flexibility, and freedom from penalty in the face of failure—are actually the ones that can impede efficiency. Much of the work organizations have done since the Great Recession to drive efficiency during tough times has facilitated financial performance but has likely hindered innovation capabilities and readiness.
2. *Search for the blockbuster.* Innovation is not just something big and sexy with notable market impact—as with the iPod in its day; small or nonvisible innovations can have significant competitive impact. For example, some hotels offer free Wi-Fi or loyalty points in exchange for not providing daily housekeeping. The customer benefit of these goods is higher than the customer benefit of a vacuumed carpet and new towels; the marginal cost to the hotel of providing this value is lower than the cost of cleaning a room. Everyone is a winner—especially

investors and shareholders. Or take Zara, the Spanish fashion retailer. It has attractive clothes but some distinctly nonsexy innovation in their distribution network—most clothes, for example, are shipped on hangers, in wardrobe-sized boxes. This costs them more in terms of transportation and distribution costs, but they save downstream time in unpacking at the retail shops—the store staff members simply have to replace one display rack with another. And because the clothes haven't been stuffed into small boxes to minimize transportation costs, no one has to iron each one separately predisplay.

3. *Hobby inventors*. Our research into leadership tells us that the cleverest or most creative people are not necessarily the best at creating economic value from their efforts. The skills to commercialize, market, and sell ideas are different from the skills needed to generate the idea in the first place. Indeed, some of our clients overcome this by actively supporting their inventors to become innovators through the formation of "lean" internal start-ups that promote experimentation, early customer feedback to ensure desirability of offerings under development, and iterative design over traditional upfront design approaches (Blank, 2013). Through these *innovation platforms* (Osterwalder and Pigneur, 2010) innovation is promoted by marrying the cleverness and creativity of the inventors with the sales and business savvy of the other experts added to product development teams.
4. *Internal lack of connections*. Many companies miss opportunities because the big idea falls in the "white space" on the organization chart. Employees are too focused on their silos (often by design or because of leadership's need for control) to look up and across at what is going on elsewhere in the organization and therefore can't see the dots, let alone connect them. Corporate risk management and the pressures of quarterly reporting often combine to create processes and production-line thinking which means that people don't get a chance to connect and create. Classic examples include CBS Broadcasting which owned a record label and television channels but failed to invent the music video. Or, Gillette which at one time owned Braun Oral care toothbrushes and Duracell batteries, but didn't invent the battery-operated electric toothbrush.
5. *External lack of connections*. Our research into the future of organizations and leadership tells us that external collaboration has emerged as a key source of value creation. This is partly connected to collaborating with others to deliver customer value, but also about looking "next door" to adjacent sectors to see what lessons can be learned. A good example of this is how the openness of Android stole market share in the tablet market, or how companies like 3M saw the potential for surgical tape advances by bringing together a wide range of expertise and backgrounds, including antimicrobial pharmacology, chemistry, dermatology, biology, veterinary science, and even Broadway make-up artistry to develop new product lines and expand revenue streams and profitability within the healthcare unit (Handrigan, 2013). As is increasingly common, breakthrough innovations happen when independent, hard-working entrepreneurs are provided with incubator support by sponsoring companies in terms of access to organizational knowledge, financial support, plant equipment for trial runs, and consumer research. Additionally, as is common in the pharmaceutical and bio-tech sectors, collaboration between companies and independent research institutes is often the basis of innovation in product development.

Personal Characteristics That Matter for Innovativeness

For companies striving to make innovation pivotal in their market impact, situational factors alone cannot fully account for success. When employees have the relevant attributes to innovate, the organization as a whole is more likely to be innovative. Having situational and personal factors in sync is where companies maximize investments in innovation. Recent research from the Korn Ferry Institute (2016) offers key insights into organizations that have earned a spot on at least one of three popular media lists of innovative companies—compiled by *Fast Company*, *Forbes*, and *Thomson Reuters*. The innovative achievement lists are based on a variety of criteria, such as number of patents, investor estimates of potential for innovation, and multi-industry nomination processes. These companies tend to have a larger proportion of innovative leaders than organizations not on the lists; depending on the position level, this gap can be as wide as 18 percent. The individual competencies, traits, drivers, and relevant work experiences examined by this study are inherent to Korn Ferry's four dimensions of talent ("KF4D"), displayed in Figure 37.1, which provide a whole-person view of individuals—innovative or otherwise. We found that the attributes in leaders deemed most innovative clustered around four general themes: creativity, collaboration, courage, and execution. We anticipate that organizations would benefit by considering the role each of these plays in fostering innovation and in defining success profiles that support recruiting and promoting talent for positions with an innovation component.

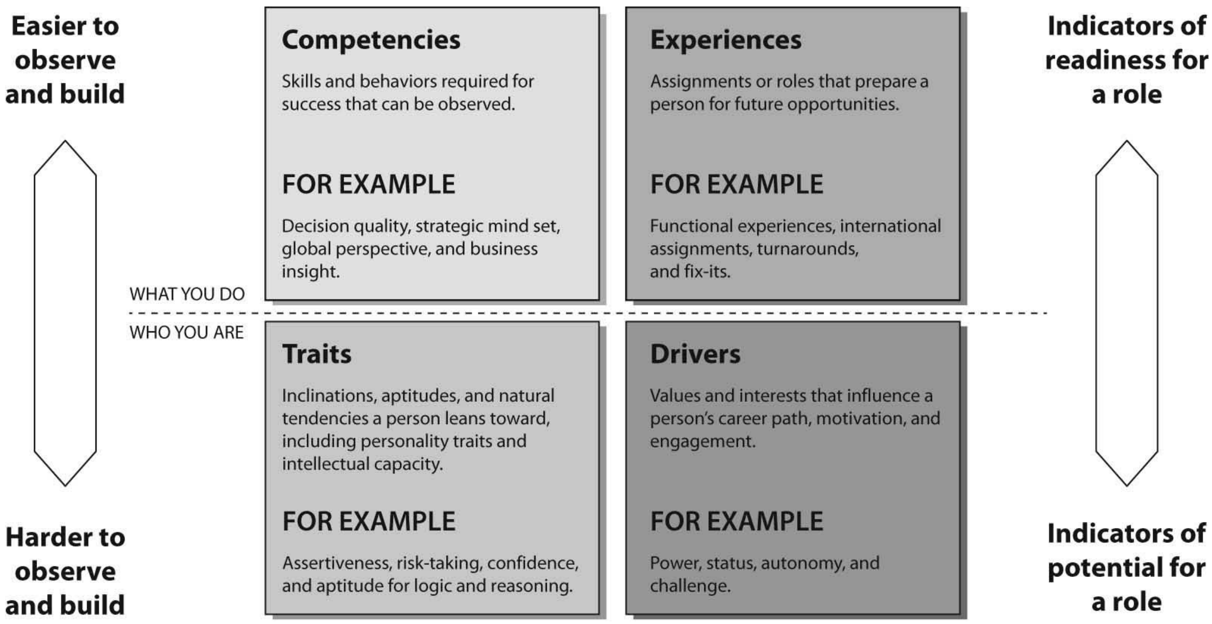

Figure 37.1 Korn Ferry Four Dimensions of Leadership (KF4D)

1. Creativity

Perhaps it goes without saying that innovation cannot happen without creativity, although they represent qualitatively different things. Creativity involves ideation—in this context, coming up with novel ideas and having a unique way of seeing the environment in ways that others do not see clearly or miss entirely. Innovation is a broader concept that encompasses both developing new and useful ideas as well as creating a process for testing the market viability of them and then implementing them through structured steps. Through our KF4D lens, we define creativity in terms of core personality traits of intellectual curiosity, cognitive flexibility, and learning agility; the higher-level competencies of situational adaptability (to be able to withstand the inevitable ups and downs of developing and positioning one's ideas) and strategic mind set (to ensure that interesting ideas have the potential for real market impact); and having had work experiences with elements of product and strategy development. Of particular note, learning agility, by itself a significant area of Korn Ferry research and a well-established antecedent of leadership effectiveness, is defined as the willingness and ability to learn from experience and subsequently apply those lessons to perform successfully under new or first-time conditions. People who are learning agile are more willing to seek out a difficult course of action and take risks. They are curious, creative, and resourceful; thrive in new, complex, and ambiguous situations; get to the essence of any problem; and inspire others to embrace change and achieve results. Beyond the value it holds for innovation, our research has shown that learning agility is among the key traits that enhance enterprise competitiveness and contribute to higher profit margins. Collectively, these attributes are instrumental to innovation because they relate to vision and insight, developing original approaches and devising ways to adapt to a quickly changing environment.

2. Collaboration

Fostering an environment of teamwork and collaboration is a key determinant of organizational innovativeness. Not surprisingly, our research indicates that innovative leaders demonstrate the leadership competencies of communicating effectively and promoting teamwork and cooperation, as well as personality traits often associated with "emotional intelligence": empathy, humility, sociability, and affiliation—characteristics that suggest a high degree of personal awareness, leading to thoughtful application of situationally appropriate leadership approaches. Team members who trust and are comfortable with one another can let their guard down and engage in innovation efforts without fear of judgment. Being able to listen intently and effectively respond to team members and other constituencies involved in the innovation process (possibly including target customers) can spark even better ideas, resulting in more superior concepts and effective innovation planning than any member could produce alone. Moreover, the set of behavioral characteristics associated with collaboration supports the development of critical internal and external connections and networks without which there would be few inroads to customer insight, market trends, and alliances that can accelerate innovation efforts.

3. Courage

Many people may be creative, but to engage others in disruptive thinking about novel ideas (e.g., defining what customers really want, even if they don't yet know it) can involve a degree of risk-taking that isn't for everyone. It is human nature to latch onto established mental models that help explain the world around us (e.g., seemingly persistent patterns of buying behavior, the influence of customer loyalty on the staying power of products); challenging accepted assumptions can make one unpopular among colleagues who may have interests in maintaining the status quo. Being different in that regard requires courage of conviction and self-confidence to encourage others to embrace change and to deal with resistance that comes with breaking norms. Our research shows that highly innovative people develop these attributes through work experiences that entail risk and visibility across the organization. This can make them more accustomed to engaging in break-set thinking and with the notion of setbacks as an unsurprising outcome of attempts at innovation. For executives, this also can press them to lead boldly, influence others, and build needed support to adopt and embrace novel ideas.

4. Execution

In addition to the three above factors, the drive for achievement of results through systematic, disciplined execution is imperative for successful innovation. Achievement, as a motivational orientation that fuels high energy levels and favors calculated risk-taking, is well documented in relation to sustained effort to create and implement novel ideas, entrepreneurial success, GDP growth, economic welfare, and even the number of patents generated in a country (McClelland, 1961; Spreier, Fontaine, and Malloy, 2006). Additionally, those individuals rated as most innovative in our research tend to have a bias for action and initiative in their organizations. They don't just think up ideas; they are more likely to be activists in sharing their ideas with others. They then work with teammates, customer-facing colleagues, and actual customers to refine their ideas by actively seeking input that can enhance the concept and reduce overall time to market. Considering relevant work experiences associated with this execution factor, leaders show greater innovative capacity if they have had previous project and general management experience—reinforcing the notion that the process of innovation is much more than just coming up with interesting, novel ideas.

Organizational Influences on Innovation

Successful innovation requires more than a propensity for good ideas. Innovative organizations need to translate novel approaches into business practices that improve organizational performance or products and services that reach the market. As Harvard Business School professor Theodore Levitt has argued (2002), advocates of innovation "have generally failed to distinguish between the relatively easy process of being creative in the abstract and the infinitely more difficult process of being innovationist in the concrete. . . . Ideation is relatively abundant. It is implementation that is more scarce." In our research with organizations that regularly create value from innovation, we see three key elements that can unlock value and contribute to the success of creating lasting shareholder value from innovation.

1. Structure and Process that Enable Organizational Agility

Companies will not commit limited resources to develop commercial innovations unless they advance business strategy; and innovations will not gain traction in the marketplace unless they effectively address real customer needs. Our research shows that highly innovative companies have adopted practices to ensure that both these conditions are met throughout their organizations—providing the supportive context that enables their people to innovate intelligently. Companies with a track record of innovation (e.g., Korn Ferry Hay Group's Best Companies for Leadership 2011 study focused on this topic), have responded by effectively flattening their organizational structures and streamlining their governance policies in alignment with business strategy geared to leverage innovation. Through such design modifications, they create just enough structure to effectively collaborate, but not so much that it makes teams engaged in innovation bureaucratic and rigid. This allows for the reshaping of work routines and the flexibility to self-organize, structure quick communication paths, and react nimbly to new insights—even to the point of creating dedicated business units with unique structures and processes to enable open innovation processes (Chesbrough, 2003), early-stage product investments, and earn a reprieve from short-term performance expectations. As a case in point, Strauss Group, an international Israeli food and beverage corporation, established Alpha Strauss (e.g., Gould, 2014), a food technology incubator, to bring an entire community of entrepreneurs, investors, partners (such as PepsiCo), food industry executives, government officials, researchers, and service providers under one umbrella organization to accelerate the process of bringing breakthrough innovation to the market (thereby generating significant new value for consumers and providing a competitive edge against larger, multinational companies with access to greater resources).

Effective innovation companies drive decision-making authority down the organizational structure, enabling frontline leaders to introduce innovations driven by local needs—an especially important advantage for global organizations where headquarters staff may be half a world away. To ensure the highest possible returns, leading innovation companies are more focused in their investments in innovation; executives in these companies report that they have clear procedures for determining the level of investment in innovative ideas, driven by strategic considerations and fit to customer needs. Highly innovative companies often approach innovation with disciplined, structured steps, investing selectively in resources and gateways and supporting clear decision making around which ideas to pursue (e.g., Blank, 2013; Anthony, Duncan, and Siren, 2014). For instance, R&D leaders at P&G cited the company's initiative qualification process as a key factor in P&G's innovation success. P&G makes use of a well-developed "stage-gate" initiative qualification process that involves multiple functions and multiple geographies to ensure that P&G's innovation resources are allocated to the most promising concepts in terms of addressing customer unmet needs. In addition, leaders of recognized innovation companies ensure that frontline employees understand long-term business strategies, and employees invest time and effort in discussing and understanding customers' future needs. Moreover, these companies recognize the reality that success in innovation is never a sure thing. Adopting a degree of failure neutrality (within agreed upon parameters), they are almost twice as likely as other companies to support unprofitable projects to try new things. Consider the approach Toyota took with its Prius hybrid. During its development, the questions were about long-term issues: Will petroleum become more or less plentiful? Is the air quality going to become cleaner or more polluted? The goal was a lasting return, not necessarily a rapid one. By demonstrating to employees that the organization and its leaders are genuinely committed to supporting innovation, these practices encourage the additional personal effort and career risks that innovation entails. Innovation goals are then translated down to personal goals, and all have a role to play in germinating, incubating, fostering, and harvesting new ideas. In short, they strike the right balance between short-term profits and long-term performance.

2. Leadership Practices

Innovation by its very nature is challenging to manage and uncertain in its results. It takes energy for team members to stay in the "innovative zone" where they are questioning assumptions, challenging old business models, and dealing with organizational push-back. Leaders must fuel that energy. While there is no prescriptive formula for success, recent Korn Ferry Hay Group research of companies that excel in innovation (Korn Ferry Hay Group, 2011) points to specific leadership practices that market front-runners have adopted to enable and encourage innovation that matters.

Given the perspective gained through many years of partnering with *Fortune* on The World's Most Admired Companies survey, our experience is that leadership must be at the forefront of driving innovation (Hjelt, 2005). Leadership for innovation is typically characterized by leaders being connected across the whole organization, not just with a team or division. It takes into account the inherent challenges of innovation and creates the conditions for success, but not by dictating the details. Leaders are a coach on the sidelines, not a glory-seeking player in the middle; they create trust, common purpose, and mutual dialogue through frequent use of the visionary (providing clarity on long-term objectives and expectations for individual contributions) and participative (showing an abiding commitment to open teamwork and collaboration rather than holding onto hierarchy and bureaucratic structure) styles of leadership (e.g., Korn Ferry Hay Group, 2005). They take a disciplined approach to a notoriously fickle process, and focus their efforts on creating a work climate conducive to innovation: an environment throughout their organizations that invites and supports innovation and allows new ideas to flourish. This disciplined effort to establish and sustain innovation involves a number of key business practices driven by leadership:

Setting the Stage for Innovation Through Agility. As indicated earlier, the right structures and processes are important because organizations are commonly set up for efficient processes and profits that can inadvertently hamper innovation efforts. But companies able to succeed encourage a process mind set to innovation itself. They have become quicker and more agile in responding to opportunities, while reducing institutional obstacles to new ideas. Their commitment to agility starts at the top: the most effective focus on instilling agility in their leadership ranks. They offer training and development programs on agility and evaluate the performance of their leaders accordingly. Their focus on agility spans every aspect of their organizations, from how leadership is cultivated and performance evaluation criteria defined to organizational communication paths and the design of job roles. In fact, in the most innovative organizations, the very concept of defined, standardized job roles is different, because what a worker does today may change completely in a relatively short time.

Broadening Perspectives. Every innovation is the product of a new way of thinking—through different points of view creating new insights or new perceptions brought to bear on a long-standing challenge. Different ways of thinking are essential raw materials for innovation. Our research indicates that companies recognized for their innovation ensure that diversity is incorporated into the fabric of their organizations and pursue multiple strategies to gain a greater breadth of experience and perspective. This is accomplished through a set of deliberate choices driven by leadership:

- *They create room for new ideas to be heard.* Highly innovative companies encourage leadership that understands the value of gathering points of view from multiple perspectives before solving problems. They invert the "not invented here" mind set and are as likely to implement ideas that originate with the leaders of subsidiaries as those that come from headquarters. They also provide structured opportunities for younger employees to come forward with new ideas and allow employees with promising ideas to bypass the chain of command without negative consequences. These practices create opportunities for new ideas to flourish, regardless of their source, and they set expectations throughout the company that innovation is both welcome and rewarded.
- *They ensure that differences are valued.* Companies with effective innovation outcomes make diversity a goal, seeking out people with different cultural backgrounds and life experiences who are likely to generate creative friction during interactions. They are more than twice as likely as other companies to recruit cultural minorities; their senior leadership positions are filled with leaders of multiple nationalities; and their employees are expected to be aware of global issues and developments (Korn Ferry Hay Group, 2011). Cultural diversity enables these companies to bring multiple perspectives to bear on solving market challenges. It also helps them identify innovations that will deliver meaningful benefits to customers throughout the world—an increasingly important advantage for companies competing globally. In addition to seeking ideas from all corners of their organizations and broadening cultural perspectives in their workforces, these companies work to expand the perspectives of their existing employees—and to reach out to younger leaders.
- *They engage the next generation.* Recognizing the enormous market-shaping influence of demographic changes, innovative companies follow business practices that are important and meaningful to the next generation of business leaders—and consumers. These companies endeavor deliberately to connect people with projects that are personally meaningful, because younger managers are more focused on personal fulfillment and sustainable practices than are baby boomers. They are more than three times as likely as other companies to help new parents return to the workplace (Korn Ferry Hay Group, 2011). In the wider world, they are more likely to advocate for responsible business practices—and use their advocacy in recruiting. By closing the loop between personal and work values, these companies encourage younger leaders to invest themselves personally in the organization—and also gain the youthful energy and fresh thinking essential to innovation.
- *They expand their employees' mind sets.* Leadership and development practices at the innovative companies are strongly focused on enriching and expanding employees' experiences and capabilities.

> This commitment starts at the top: Senior leaders are far more likely to be personally involved in the development of others than leaders at other companies. These companies also encourage employees to learn in areas outside their expertise and give them assignments that stretch their capabilities. They are more than twice as likely to use international opportunities to attract and develop talent as other companies—and less than half as likely to rely on pay and bonus opportunities in that regard (Korn Ferry Hay Group, 2011). These practices encourage employees to gain diversity in their own experience, mirroring the cultural and generational diversity within the organization as a whole and helping to ensure that multiple perspectives are part of every business unit.

Focusing on Collaboration. If multiple perspectives are the raw materials of innovation, collaboration is the alchemy that converts them from clashing viewpoints into coherent, useful, valuable solutions. The complexities of products and services demanded by today's markets have rendered the "lone genius" virtually obsolete. Meaningful business innovations are almost always the result of collaborative efforts, and the role of the leader of such an effort is not to create a solution single-handedly, but to create the conditions that enable the team to develop innovative solutions. Highly innovative companies recognize the indispensable value of collaboration in all phases of innovation. Accordingly, these companies do not merely preach collaboration—they virtually require it. They emphasize close collaboration among leaders in different parts of their organization and take prompt action when leaders are not collaborating. Just as importantly, they reward collaboration, incorporating team-based measures in their incentive plans. These practices ensure that company leaders have both the skills and the incentives to create and manage the diverse teams that make innovation happen.

Celebrating Success and Learning from Setbacks. Innovation is a fragile process that results in failures more often than successes. It is almost impossible to structure and difficult to incentivize; in fact, as popularized by business author Daniel Pink (2009), incentives often work counterintuitively to suppress creativity. Despite these challenges, effective innovation companies have found effective techniques to create incentives for innovation without inadvertently discouraging it. First, they have incentivized collaboration. In addition, their leaders regularly celebrate successes in innovation, providing recognition and sending a powerful message throughout the organization. At the same time, they handle setbacks as opportunities to learn rather than failures that deserve punishment. By supporting risk-taking in the service of innovation—even when short-term performance is affected—leaders at these companies help ensure that the spirit of innovation survives inevitable failures and disappointments as an inevitable part of any innovative effort, and ultimately delivers successful outcomes.

Taken together, these practices create an environment that encourages employees to invest the energy—and accept the risks—that true innovation entails, while at the same time providing the necessary ingredients that make success in innovation more likely. As we have seen, flexible, responsive, and agile organizational structures are important elements of an innovation-friendly climate. However, the actions of effective, capable leaders make the biggest difference in creating a culture of innovation—and innovation market leaders are significantly more committed than other businesses to recruiting, engaging, and developing leadership. Leadership sets the stage for innovation by clarifying strategies and encouraging employees to come forward with new ideas. Leadership elicits new insights by bringing together people with different perspectives and enabling robust debates, shaped by clear strategies and a deep appreciation of customer and marketplace needs. Leadership unites collaborative teams and earns the focused effort that innovation requires by inspiring intense commitment and personal dedication. Leadership celebrates success while using setbacks as learning tools in a longer cycle of success, communicating the value and importance of innovation to an entire organization. Leadership, in short, creates an organizational environment in which innovation is the expected norm, not the exception. Such an environment is an elusive goal, but our research provides examples that every business can follow to encourage and support innovation.

3. Culture

Culture describes the values, beliefs, and expectations that define "how we do things" in an organization. Our approach to culture assumes that there is no single or best culture associated with high-performing organizations. Rather, cultures are more or less supportive of the strategic intent of the business. A strong culture that is misaligned with strategic objectives can be a major barrier to change. But if appropriately identified and defined, organizational culture can provide a sustainable source of competitive advantage and performance.

Our research and experience working with innovative companies worldwide confirm the importance of culture in supporting the ability of organizations to adapt and change, both in ways of working internally and in products and services brought to market. The right culture for innovation encourages people to mingle across departments to generate new ideas in the "white space" in the organizational chart. It encourages outreach to multiple external partners as a source for new ideas and mutual exchange to create something new. It rewards diversity in the search for new ideas, frequently exposing the organization to new approaches in the quest for open-source ideas.

In short, culture drives behavior in organizations. And, for organizations seeking to be more innovative, it can provide more powerful reinforcements than just financial incentives. A recent Korn Ferry Hay Group survey of compensation professionals confirms active use of broad-based reward programs to spur innovation, including promotion considerations, bonuses or incentives, nonfinancial recognition, and spot cash awards (Scott, McMullen, and Larson, 2015). However, other research has questioned the impact. Rewards may encourage the generation of *more* ideas. But because breakthrough concepts are rare, incentives alone may not do much to increase the frequency with which *high-value* innovations surface. Instead, organizations may be better served by fostering cultures that encourage play, experimentation, and interaction (Baumann and Stieglitz, 2014).

We have noted some of the key elements of the cultures of innovative organizations, including high levels of individual empowerment, a strong bias for action, support for risk-taking and learning from failures, and an emphasis on collaboration within and across teams. But how do innovative organizations embed these elements in their cultures and maintain them over time? They manage the interplay between culture, structures and processes, and leadership. This interplay is presented in Figure 37.2.

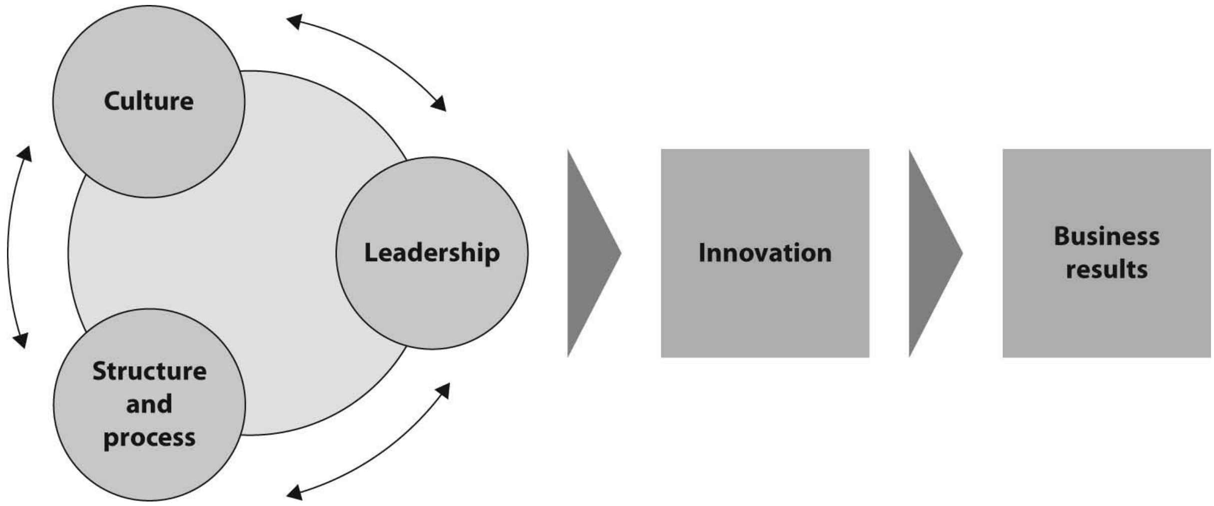

Figure 37.2 Managing the Interplay Between Culture, Leadership, and Structure and Process to Yield Innovation and Business Results

Culture is distinct from the more formal (tangible) structures and processes in place in a work environment. But both influence how people act and, as a result, need to be aligned to ensure that employees receive consistent messages. Consider the impact of culture on organizational systems. An organization may seek to promote high levels of individual empowerment and risk-taking through role definitions, performance management systems, and targeted development efforts. But the influences of these interventions on behavior can easily be undermined if the culture of the organization tells employees that sticking their necks out is risky because failure will be quickly punished. Likewise, consider the impact of organizational systems on culture. While culture influences behavior, it is also sustained over time by behavior. If organizational systems encourage employees to act in ways that are inconsistent with cultural values, (e.g., reward systems that emphasize individual metrics in a culture that promotes team-based activity) over time those values are likely to erode and/or change.

Finally, leaders play a clear role in developing and maintaining both culture and organizational structures and processes. From a cultural perspective, the words and actions of leaders send strong signals to employees about the norms, standards, and expectations that collectively represent the way the organization operates. Leadership consistency with targeted cultural values helps to reinforce them, while inconsistency undermines them. An organizational culture of empowerment can, for instance, be diminished over time if leaders continually pull decisions upward for fear of delegation. Similarly, leaders at all levels play a key role not only in designing but also in implementing organizational systems. And, whether focused on big-picture issues of strategy and direction or more local concerns such as rewards and performance management, our research confirms that quality of implementation (rather than quality of design) is the most critical differentiator of high-performing companies. Often, immediate managers are the "last mile" in the delivery of organizational systems and processes to employees. An organization may intend to incentivize creativity and innovation, but reinforcement from leaders is critical in the way they coach employees for performance and development and how they discuss and implement reward programs within their teams.

Summary

Thomas Edison was one of the most successful innovators of all time. Beyond giving us the light bulb, the phonograph, and motion pictures, he is widely regarded as the father of modern corporate research and development. His research lab in Menlo Park, New Jersey, was an original concept and became the model for Bell Laboratories and others to follow. Among Edison's many notable quotes is: "I never did anything by accident, nor did any of my inventions come by accident; they came by work." Success for today's most innovative companies is similarly no accident. While there is no cookie-cutter formula for creating an innovative organization, our research and experience indicate that effective innovators succeed holistically. They promote alignment around a clear leadership vision. They recognize that having the right people working with the right leaders in the right environment and culture is essential to the development of new ideas. And they ensure that processes and practices are in place to translate creative activity into implementation and end results.

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Chapter 38

Creating and Maintaining a Culture of Innovation, Engagement, Leadership, and Performance

Kaye Thorne, Founder and Managing Partner
Talent Perspectives

The Current Climate for Innovation

We are witnessing changes in new product development and innovation on an unprecedented scale; ideas are generated and funded almost overnight; social media can make or break a new concept. Employment patterns are changing, traditional organizations are being challenged by newer and younger brands, and employee engagement is even harder to achieve. New young businesses are challenging more established brands with a breathless enthusiasm and energy.

How to Engage with Creative People Within an Organization

One of the biggest challenges for larger organizations is how to engage with those employees who are creative and innovative—to be able to harness their talent and to encourage them to work with others in channeling their creativity into workable ideas.

If you want to engage with your employees, particularly those who are creative and innovative, you need to create a climate that welcomes them, stimulates them, and most importantly understands them.

As fewer people are required to do more, finding time to foster and sponsor creativity and innovation may seem like an impossible challenge, but a reevaluation of the way your organization uses employee time may reveal different ways of being creative.

For creative people, being creative and inspired by an idea is not measured by time. You don't turn off a creative flow by choice. When you are in that state, you want to keep going, often beyond any allocated time for the task. It is such a precious feeling that you keep going until you have exhausted the idea.

Finding the time and space to be creative is vital to sustain creativity. The reality is that the best ideas usually arrive when you least expect them.

Creative people usually savor idea generation, but they enjoy less the implementation of their ideas. Understanding this can lead to a more successful way of working, which engages creative minds and helps to breathe life into existing products and processes. This understanding can also lead to developing new concepts.

One of the key issues for these individuals can be the desire not to be responsible for managing others. When we were questioning "mavericks," one response was, "When you are being creative, you have to spend time on your own generating an idea, or working out a solution. To then also have responsibility for managing others can dull your capacity to be spontaneous."

There are a number of questions to consider in terms of your organization's ability to foster innovation:

- Is there top management support?
- Do we champion idea generation?
- Do we analyze trend data?

- Do we accept ideas that break organizational precedent?
- Do we encourage cross-fertilization of ideas and perspectives?
- Do we give people personal space to be creative?
- Do we tolerate failure in the pursuit of a good idea?
- Are changes in direction accepted as necessary?
- Do we reward ideas that lead to the development of business success?

To foster innovation, there is a need to understand what it means in practice and to adopt measures that replace laborious and time-consuming actions with a fleetness of foot. From the top to the bottom of the organization there is a need to focus on key actions that make things happen.

What is important is the acceptance of failure—the recognition that in being innovative, you won't always get it right, but that in an environment of active experimentation, you keep trying. One thing I find fascinating is some organizations' nervousness about fluidity—that systems and procedures need to be fixed and that all too often the opportunity to use one's initiative in responding to situations is all but removed. Many new and embryonic ideas have been squashed by the statement, "We tried that before and it didn't work," or, "That's not the way we do it here."

When questioned, most senior management teams recognize the importance of innovation in improving business performance. However, when questioned further and probed more deeply, a much smaller percentage believed they were actually being innovative or fostering innovation with a degree of rigor. Equally some senior teams believed that they were capable of generating the ideas; what they lacked was a credible process of implementation. Others felt that while they created the ideas and implemented them, they had no system of evaluating, or monitoring, which ideas worked or which had failed and why.

How to Change

Resisting change and trying to cling to past successes is a risky strategy. Equally important is recognizing that change cannot happen overnight. If it did, it would probably mean failure. This is what many new CEOs have learned in trying to do too much too soon without identifying the people who will sponsor the change. What is needed is a considered but creative approach to change. Finding and nurturing internal advocates who are excited about the prospect of developing new ideas and who will become anchor points throughout the organization, acting as local champions, is an important part of any innovation process.

Sponsoring Innovation and Creativity

Managing the process of innovation is critical for its success. Understanding how ideas are generated, sponsoring creative thinkers, and allowing people freedom and time to think are important parts of the role of any manager. One of the key steps in the management of innovation and creativity is understanding both the process and the way creative people operate. Understanding what makes a small idea big in an organization and how to identify and process that idea into a competitive advantage are important stages in innovation.

Organizations need a methodology to convert those small seeds of ideas into blossoming plants. Today's business environment characterized by ambiguity and uncertainty requires organizations and leaders to use different sets of behaviors to deliver bottom-line results. The environment has become increasingly complex, and staying ahead requires more than just conventional thinking.

Organizational Readiness for Innovation

There are a number of models of innovation, but following is a model that I have used successfully with a number of organizations. The six stages of innovation are:

Stage 1: Creating the climate
Stage 2: Idea generation
Stage 3: Developing and exploring ideas
Stage 4: Evaluating options and decision making
Stage 5: Making it happen; implementing innovation
Stage 6: Measuring success; monitoring innovation

Below is an analysis of these key stages and suggestions of ways to free up your organization in the early stages of the innovation cycle and how to turn ideas into pragmatic solutions that can be implemented.

Stage 1: Creating the Climate

Creating the climate where innovation and enterprise can flourish is a very important stage in the innovation process. If one examines the organizations that are leaders of innovation, there are very sound business processes that harness and encourage creativity and innovation from all employees. Good ideas do not just come from the inventive minds of the leaders or their creative teams. So where do you start? First it is important to create the right climate. This means that from the CEO to the most junior supervisor, you need to recognize and champion idea generation. There needs to be a culture in which people are encouraged to take action and use their initiative. Often it is the customer and the front-line employee who can see where small improvements can make a real difference. Giving people the freedom to make and act on suggestions is the start of creating the ideal environment for idea generation.

One of the important skills for any manager is the ability to coach others. Good coaches naturally need to know how the people they are coaching operate. This includes understanding their preferences in innovating. If you are coaching someone who is naturally creative, who regularly generates highly original ideas, it is important to recognize how to create an environment in which he or she can develop. Creative people can be perceived as being difficult to manage; they may not easily conform. They may arrive late for meetings, refuse to complete paperwork, and have difficulty in timekeeping.

When recruiting, it is important to recognize that the very people you need to light up your organization may not present a conventional career résumé, and unfortunately may be filtered out in the early stages of the recruitment process.

The better managers understand how people think and the creative process, the better able they are to identify and manage them. Recognizing the different needs of individual employees is vitally important for any manager. It often only takes a small adjustment in the process to allow the degree of flexibility that creative people crave.

To assess your ability to manage innovation, you may wish to think about your responses to the following questions:

- Do I create an environment in which ideas are encouraged?
- Do I provide people with the space to be innovative?
- Do I allow people to make mistakes?
- Do I provide helpful feedback to people when they generate new ideas?
- Do I set stretch goals around the implementation of innovative ideas?

All creative people need someone whose opinion they respect, someone to bounce ideas off, who will positively challenge them, and who will help them move from the idea stage to the implementation process. One of their biggest fears is that once they let go of their idea, others will not understand their concept and will change it so much that their original objective is lost.

The excellent managers are those who assemble teams in which creative and innovative people are supported by others who can help explore their ideas and those who can take the idea to the next stage of making it happen.

Within this environment high trust develops allowing ideas to be challenged, modified, and implemented while remaining true to the original concept, thus enabling the creative and innovative people to move on to generating the next good idea.

One of the challenges for organizations is how to stay ahead of the competition; in today's environment it is not enough to simply be innovative. It is the ability to innovate, accelerate, and innovate again.

You want to create an organization that:

- Encourages people to be creative.
- Is open to new ideas.
- Rewards people for new ideas.
- Gives people personal space to be creative.
- Attracts creative people.

Here are some actions your organization can take to improve its capability to achieve the above:

- Build innovation into an individual's objective setting during performance appraisals.
- Build measures of innovation into the performance management systems.
- Be open to ideas and actively communicate them throughout the organization.
- Provide "innovation" time in people's working week.
- Develop innovation coaches and educate recruiters to look beyond the standard career résumé.

- Build idea generation into leadership training.
- Establish business measures that record levels of innovation and creativity.

Stage 2: Idea Generation

Having the ability to generate ideas is a very special skill and one that is needed by all organizations. Therefore, encourage teams to work together generating ideas. Managing the process of idea generation is equally important either for yourself or your team. One of the first steps is to understand the stages in the creation and development of the idea.

Highlighting the different stages of the process helps you to recognize the different roles in the process. Some people prefer to create the original idea, while others prefer to take an idea and work with it.

Many people feel that they are not creative because they are not the first to come up with an idea. However, being able to modify the idea of others is an important skill, particularly if they are able to understand the thought process of the creator and follow through with the original concept. The idea originator and someone who can modify and develop these ideas working in partnership can generate very high levels of creativity, particularly if they are in a positive working environment where ideas are challenged, revised, and developed.

Equally important for the organization is to identify employees who are well connected socially, who identify and monitor trends, and who understand the digital space. This is often of particular interest to those employees described as millennials. Their networks and ways of connecting will be completely different from their slightly older counterparts in the organization, but harnessing and engaging them can reap rich rewards for an organization.

If you want to create an organization that:

- Encourages ideas.
- Considers all the options.
- Encourages teams to develop ideas.
- Encourages out-of-the-box thinking.

Then following are some actions you can take to improve your organization's capability to achieve the above:

- Create "think tanks" in the organization to generate ideas.
- Use recognized processes including mind mapping and other techniques.
- Analyze and contribute to trend data.
- Connect socially with other organizations.
- Develop many ideas to solve problems.
- Encourage "continuous improvement" concepts.
- Run innovation and creativity workshops.
- Publish winning ideas throughout the organization.
- Establish a mechanism to capture ideas.
- Recognize and acknowledge people who think differently.

Stage 3: Developing and Exploring the Original Idea

Once original ideas have been created, it is important to be able to develop these ideas further. What is important is to create an open environment where teams can share ideas and build on the original concept. In this way a good idea can be developed by input from others.

In a large organization, a good idea from one department or region can be shared and modified to meet the operational and cultural demands from another region. Where organizations have merged, good ideas can be shared from the experiences of the other. In some sectors teams from different organizations work together to achieve breakthroughs or technology improvements. Increasingly, global teams can use the different time zones to move an idea forward.

As an idea or concept is shared, the original idea may be modified to meet a different need. What is important at this stage is that the concept is fully explored by people with different perspectives who are encouraged to fully investigate the potential.

This stage is important in eliminating the barriers to discovery. If something doesn't work the first time, how could it be changed or modified to work in another way? These early experiments are vital to the development of the final successful idea.

Without experimentation an idea could move through to the next stage or worse into the final implementation stage where major costs could be involved if it cannot be implemented successfully.

You want to create an organization that:

- Shares ideas.
- Enables teams to develop winning ideas.
- Searches widely to seek and build on ideas.
- Looks for the possibilities in ideas.
- Has senior management listen openly.

Here are some actions to improve your organization's capability to achieve the above:

- Use new technology to share ideas.
- Use time zones to continually explore and work on ideas.
- Create virtual innovation teams.
- Build innovation and creativity into team-building activities.
- Focus on listening and building skills and behaviors.
- Create more than one solution to a problem.
- Train leaders who can foster and develop the ideas of others.
- Establish bench-marking processes—internal and external.
- Look for possibilities in ideas—eliminate evaluative or judgmental thinking.

Stage 4: Evaluating Options and Decision Making

Decision making and evaluating options represent a very significant stage in the creative process. This is when individuals and teams work together to identify the best way to take an idea forward. This is when the final modifications are made before implementation. At this stage it's essential to look more broadly at a situation or idea. Teams need to ask exploratory questions such as, "What if we tried doing it this way?" It's also important to look for other examples, benchmark, and learn from other people's experiences. Think positively—imagine other ways of implementing an idea.

The idea also needs to be evaluated from a factual perspective. Itemize the plus and negative factors, set a deadline, and follow the process through analytically, set yourself clear objectives, or identify the key stages in a project.

It's important not to shut down on options too soon, but it is also important to work to a conclusion. By recognizing the importance of both, team members can work together to explore options, but also make effective and timely decisions.

You want to create an organization that:

- Evaluates ideas and options.
- Has formal decision-making processes.
- Is prepared to take risks with ideas.

Here are some actions to improve your organization's capability to achieve the above:

- Introduce formal decision-making tools and processes.
- Encourage formal evaluation of ideas.
- Encourage ideas that break organizational precedent.
- Evaluate the quality of decision making.
- Use financial models, such as shareholder value and cost-benefit analysis.

Stage 5: Making It Happen

Once you have worked through the idea generation, exploring and evaluating stages you reach the stage of implementating innovation. It is at this stage that some very interesting things start happening. The individuals or teams who originally generated the idea may have lost interest; this may be because their main preference is in simply coming up with ideas and they prefer to let others handle the implementation. Or it may also be that they are already being drawn into the start of another project. What is important is that at this making-it-happen stage those who take responsibility for the implementation remain faithful to the ideas and concepts generated in the early stages. Otherwise ideas can be misinterpreted, and sometimes the end result is very different from what was originally envisioned; if the idea has evolved naturally, then this is acceptable, but not if it has been distorted and no longer meets the original need.

This stage is also important for critically examining the implications of implementation. There should be many opportunities to ask the "what if?" questions. Information should be shared and the project sponsors encouraged to maintain an overview of the impact of this idea on other parts of the business. The focus at this stage is turning an idea into an achievable and targeted implementation plan.

You want to create an organization that:

- Implements ideas in a practical way.
- Uses formal planning processes.
- Builds in feedback mechanisms.
- Innovates, accelerates, and innovates again.

Here are some actions to improve your organization's capability to achieve the above:

- Introduce formal project management techniques, including milestone planning.
- Build performance management processes.
- Set stretch goals around idea implementation.
- Introduce "bottom up" feedback mechanisms.
- Set standards and benchmark implementation performance.
- Evaluate managers on their ability to implement action plans.
- Introduce continuous improvement processes.

Stage 6: Measuring Success

At the end of the process, it is important to monitor and review the overall success of the innovation project. This stage is vital if lessons are to be learned; it is important to plan this stage from the start of the project.

In the initial planning stage, identify milestones that will set the project into a time frame and can be measured together with the outcomes. Think about how substantive data can be generated. Find a way of effectively recording outcomes. Without making it too onerous, try to gather quantitative as well as qualitative data. Look back at the original action plan and objectives and measure if those objectives have been met.

Importantly, all team members should work together to review every part of the project and to identify the lessons learned.

Look for linkages between the project and others. Learn to give positive feedback to team members. Find ways of sharing the successes and the lessons learned with the rest of the organization as well as with individual team members. Ensure that the achievements are linked to their performance review.

You want to create an organization that:

- Is benchmarked by other organizations.
- Has established feedback mechanisms.
- Celebrates success and rewards innovation.

Here are some actions to improve your organization's capability to achieve the above:

- Encourage the organization to manage failure and adopt what has been learned.
- Establish formal reward systems linked to success.
- Move to team goals rather than individual goals.
- Ensure that business plans are directly related to strategy.
- Train leaders in recognizing and rewarding ideas that are implemented effectively.
- Introduce formal measurement processes.
- Set up project review meetings.

Six Stages Plus

While the six-stage model is tried and tested, the reality is that in today's modern organizations there will always be the exception. As mentioned at the start of this chapter, we are experiencing change on an unprecedented scale; the generation of ideas and the speed of products to market have changed dramatically. The need for organizations to harness the talents and enthusiasm of all employees is vital in creating an engaged and motivated workforce.

It is also valuable to acknowledge and act on the feedback and requests from customers and to use social media to gather feedback. Responding promptly to issues is another way of identifying where products and processes need improvement.

If you want to engage with your most creative and innovative employees, give them some freedom! If they do leave, stay in touch. One day they may need investment; they may bring a big idea back to your organization; they can be used as mentors. Never close the door on a good idea or the person behind it.

Conclusion: Putting It into Practice

1. Start talking to your people, be transparent, invite their ideas, suggestions for improvement, and, more importantly, act on it. Be confident and open about performance, acknowledge when fewer people are doing more, be prepared to reward people for this extra effort, but in the spirit of the reality of the business situation.
2. Involve as many people as possible in the recruitment process, and encourage your talented and creative employees to recruit like-minded people. Focus on all aspects of your business: What does your organization do that people can be proud of? Why would someone want to come and work for you?
3. Challenge your leadership to take more ownership for the development of their people. Overhaul all training programs, look at the outcomes, what is being offered by whom, and what the benefits are. Develop coaching; look at the transfer of skills and open up opportunities for more fluidity within different parts of the organization. Recognize the importance of all forms of idea generation.
4. Acknowledge the need for flexible working; look at every technological option for remote access, free people from their desks, trust them to put in the hours regardless of location. Look closely at their working environment. Listen to employees' ideas for improvement; recognize that where and how people work are important factors in motivation.
5. Linked to this is the need to build a climate of trust by encouraging managers to not keep checking up on their teams. Instead use multichannels of communication that allow for more effective sharing of information. Encourage managers to spot the opportunities when people are doing things right rather than wrong.
6. Make meetings meaningful, short once-a-week get-togethers where you can share valuable information. These meetings can also be congratulatory, inspiring, and fun. Think carefully about the timing so that you achieve maximum attendance.
7. Think about the work people do. Can you create a more stimulating workplace? If people are undertaking repetitive tasks, how can you make it more interesting? Can you help them create a more balanced and varied day?
8. Be a trailblazer: Evaluate the value of being first and recognize the potential to learn from being second; acknowledge failure and recognize the lessons learned from mistakes; be supportive of your employees; demonstrate your commitment to your local community.
9. Analyze and contribute to trend data, connect socially with other organizations, listen to your customers, and be prepared to act on feedback. Be responsive, sponsor new ideas, and encourage creativity and innovation.
10. Find ways of sharing the successes and the lessons learned with the rest of the organization as well as with individual team members. Celebrate success, but do not become complacent. Be proud of your achievements, but humble in glory.

Chapter 39

Reframing Creativity as a Martial Art

Rick Kantor, Chief Provocateur
Samurai Creativity

TODAY'S ORGANIZATIONS REALIZE THAT CREATIVITY IS ESSENTIAL IN ORDER FOR THEM to keep pace with a rapidly evolving world and a dynamically changing marketplace. Yet we have also inherited centuries-old, outmoded beliefs about what creativity is, where it comes from, and how we can have more of it. These misguided beliefs are severely limiting our ability to actualize the creative potential embedded within our organization's talent, inhibiting thus our innovative capacities.

We need to replace the distorting mental frames we have used in our concepts of creativity and replace them with accurate models that will empower our teams' most innovative responses to the new realities we confront each day in a VUCA world. The acronym VUCA—volatile, uncertain, complex, and ambiguous—is a military term from the 1990s borrowed to describe today's extreme business environment as similar to the "fog of war." Survival on the battlefield of work depends on skilled, creative responses at any given moment.

Believing that creativity refers to Picasso or Mozart, Einstein or Leonardo perpetuates the prevailing notion that, "I am not creative"; others have that talent and responsibility but "I am exempt." Without diminishing the eminent achievements of these masters, creativity is the birthright of every human being including everyone in your organization. The caveman would not have survived against stronger and faster predators without creative thinking. It is the ability that permits us to continue our evolution against the formidable forces of nature, including the activities of other humans. More than ever, creativity is the single ability that will allow twenty-first century people to survive, or not, the forces of destruction we have unwittingly set in motion.

The imperative of our time and our organizations is to harness the untapped creativity in our people to ensure our survival—of our organizations and our species. Instead of viewing creativity as a soft science, an art or talent, we need to approach creativity with the kind of tenacity and grit we have reserved for leadership, management, productivity, finance, and efficiency. We will only start to achieve our great innovative potential when we see creativity as a martial art we can train for to keep pace with the alarming, intoxicating, and overwhelming pace of change. The world's information is doubling about every 11 hours (Coles, Cox, Mackey, and Richardson). What other human capability might allow us to grapple with this reality?

Leaving our creative capabilities to chance or to the precarious retention of our hired creative talent buys into a long-vanished luxury of ample time or an enduring status quo in which we can invent the next big innovation or incremental product update. Today, wholesale disruption of industries occurs overnight. This is the VUCA reality. It is not hyperbole to say that we fight for our survival every day, both in looking for the next great creative advance in our industry and standing agile in our response when it surprises us, without warning, from outside agents.

What should our organization's posture be and the mindset of our people regarding creativity? Faced with imminent irrelevance or extinction every hour, how can we use this pressure as the motivation to be constantly achieving peak creative performance?

The answer comes as a metaphor that allows us to reframe creativity in a way that empowers everyone. The last 70 years of scientific research on creativity and innovation, and the early efforts of the two centuries preceding, paint a clear picture of the personal qualities, processes, attitudes, and environments that foster creativity. It bears a striking resemblance to the culture and values of the Samurai, whose values and practices are also the correlates of peak creative performance.

It should not be surprising that our VUCA world might find in the remarkably trained and impeccable Samurai warriors an apt role model for creative survival. Their code of behaviors for achieving self-actualization is the same as for manifesting creativity. That code of behaviors and beliefs was called Bushido—the way of the Samurai. Its purpose was to ensure survival in a physical world, relying on swordsmanship and mental acuity. Today, it is the sword of creativity that ensures survival in a digital world of information and technological capabilities. By studying the uncanny similarity of the virtues and mindset that yesterday's Samurai required with our knowledge of how creativity happens, we may begin to see creativity in its proper light as an achievable, trainable martial art for the twenty-first century. Let us examine these virtues and mindset in further detail:

Persistence

You must have 7 falls and stand up 8 times.

—*Yamamoto*

The alluring myth of the creative muse, the light bulb moment, the eureka or aha! moment of epiphany denies the extreme effort that innovation—the product of creativity—requires. Consider Edison's thousands of failed light bulbs, and the 23 other teams of scientists and engineers at work in pursuit of electric light; Dyson's 5,127 prototypes of dual cyclone bagless vacuum cleaners (Beard) to finally receive the game-changing patent; Picasso's multiple iterations of his masterpiece, Guernica. It is persistence, stubbornness, and obstinate fortitude that creativity requires.

Poet Mary Oliver explained, "Creative work requires a loyalty as complete as the loyalty of water to the force of gravity" (Oliver). Creativity researchers found that "good inventors learn to be tenacious, persistent, focused and open to experience." (Henderson). Likewise, Samurai "should be excessively obstinate. Anything done in moderation will fall short of your goals" (Tsunetomo). Their training in perseverance was both in the martial arts and in developing the mind, body, and spirit.

This perseverance is what allows creative people to reach for the remote ideas where novelty lies. E. Paul Torrance measured creativity partially on our ability to be fluent, producing many ideas, and to think remotely, staying on task until we begin to dig into fertile new grounds beyond the obvious and conscious choices. The research of Mednick and Runco corroborated that creative insights are remote, not easily found in our surface attempts (Runco). A quality of creative people is their "resistance to premature closure," asking, "What else might we do? How else might we . . .?" It is the willingness to continually explore beyond the expected to find new creative collisions of ideas. This persistence and fortitude require a strongly developed sense of self.

Self-Awareness

Every act of genuine creativity means achieving a higher level of
self-awareness and personal freedom.

—*Rollo May*

The Samurai rigorously trained to develop the inner power and belief that they could accomplish anything. This was demonstrated in their heroic fighting and in their supreme physical conditioning needed to accomplish extraordinary feats with sword, body, and mind. They maintained this peak state by daily commitment and rigorous practice.

We are required to wield creativity's sword today in service to our companies' and our planet's survival. The tasks are daunting and the velocity of change breathtaking, but we must start by resolutely knowing that we can achieve the required result. Until we view creativity as a skill that we can develop and continually sharpen to win the epic battles of global warming, adequate clean water, nutrition, or secure digital information, we cannot rally the forces of creative success.

Henry Ford said, "Think you can, think you can't. Either way, you're right" (Ford) Training today's workers in building their own self-belief, self-awareness, and confidence produces the requisite ego-strength for today's creative warriors.

In the Hagakure, the Samurai's written code, Samurai were advised to, "Do what you enjoy most—life is short" (Tsunetomo). The admonition was based on the belief that each person has his or her own predisposition toward particular gifts and activities. "The horse that carries a load can't catch a mouse. Each has its own unique genius which is quite unlike the other" (Wilson). In the literature of creativity, Howard

Gardner's theory of multiple intelligences found that there existed eight distinct natural intelligences, with individuals naturally inclined toward one or another. His recommendation was that we each honor our natural proclivities and follow our innate gifts (Sternberg and O'Hara).

No Mind and the Unconscious

Maintain the mindset that releases the mind.

—*C. Hellman*

Creativity is not a linear process. It is a mercurial process of new connection-making to spark an idea that might possibly be developed into tomorrow's innovation. Creativity researchers have developed all kinds of processes to encourage creative connection-making and the collision of previously unconnected ideas. The goal of these tools and techniques is to release the grip of the conscious mind and ego to let the unconscious speak to us. This is similar to when we sleep, as our brain is busily trying thousands of algorithms to help us find the key to our creative locked door. A type of brain activity called theta waves, that is present on waking up or drifting to sleep also pry free the cognitive mind to find novelty and creative solutions.

Psychologist Abraham Maslow in his essay, "Emotional Blocks to Creativity" described primary creativity, our most raw and original creative thoughts, as, "Creativeness which comes out of the unconscious, and which is the source of new discovery (or real novelty) of ideas which depart from what exists at this point" (Adams). Maslow suggests that we can free the unconscious through education and training—about creative problem-solving techniques, to loosen the ego's control and integrate primary process with conscious life. With education and understanding, access to the unconscious is "less threatening" and one's self can loosen the control of one's ego (Adams).

The Samurai trained incessantly over decades, beginning at a young age when older Samurai would help them perfect their martial arts practice. These mentors would teach them to free the mind through meditation to seek the state of no-mind and to find greater empathy and compassion through studies in the arts, poetry, and etiquette.

In discussing the mind's role in creativity, the Samurai metaphor for training peak martial performance is apt: Right Mind=Water; Confused Mind =Ice (Wilson).

"The Right Mind is the mind that does not remain in one place." (Wilson) Ice must first melt to be able to flow. Any inferences drawn here to Mihalyi Csikszentmihalyi's theory of the creative flow state is intentional and is discussed later.

The concept of training to attain nothingness is foreign to Western thought. "The function of the intellect disappears and one ends in a state of no-mind, no-thought" (Wilson). We are striving to reclaim, for creativity's sake, "the original emptiness of our mind in which all things are born, transformed and pass away" (Wilson). It may be easiest to understand if we liken this to every great athlete, musician, performer, or soldier who trains relentlessly to be able to make automatic responses in the moment, without thinking. Being able to be present in this way was enhanced by the meditative practices to train the mind to be of no-mind, fully focused, and present.

"By forgetting about training and casting off your mind you will be all the more unaware of yourself. The place you come to in this way is the Perfection of the Way. At this level, you enter through training and arrive at its very absence" (Wilson). Imagine conducting your next brainstorming session with a room full of talent trained in this ability.

Compare this to Csikszentmihalyi's description of the flow state, when time and ego disappear, tiredness and effort vanish as one merges with the creative pursuit. Rollo May described this as being completely absorbed or caught up in something, so that "we become oblivious to things around us, as well as to the passage of time. By whatever name one calls it, genuine creativity is characterized by an intensity of awareness, a heightened consciousness. It is this absorption in what you are doing that frees your unconscious and releases your creative imagination" (May).

In another description, the Bushido said to, "Give yourself over to insanity and sacrifice yourself to the task" (Wilson). This may sound antithetical to the confines of our organizations, but realizing this kind of safe space is necessary to allow the creative mind to soar. "Only when we eliminate our egos which constantly muddy our vision with self-consciousness will we be able to act with complete clarity and freedom" (Wilson). It takes a well-trained individual and organization to be able to encourage and achieve such a state of abandon where creativity can flow.

In his book *Good Business*, Csikszentmihalyi has three suggestions for producing a creatively productive and enlightened workplace: "making work conditions more conducive to flow, clarifying the values that give meaning to work, and influencing the worker's attitude in the direction that will make them both more happy and productive" (Csikszentmihalyi).

Open Minded, Risk Takers

When a tiny grain of sand gets in your eye, you can't open it. It's the same when you get an idea stuck in your mind.

—*C. Hellman*

The above quote is a Samurai teaching from hundreds of years ago. Contemporary creativity researcher Gregory Feist has written that creative people are "open to new experiences, less conventional and less conscientious, more self-confident, self-accepting, driven, ambitious, dominant, hostile and impulsive" (Feist). They reserve judgment, which is one of the keys to successful brainstorming sessions. They accept and are open to all offerings; they withhold judgment in order to maintain an environment where risk-taking is acceptable and encouraged.

A creative Samurai is fearless in proposing and pursuing new ideas and is willing to risk condemnation, failure, or ridicule. It requires ego strength and self-confidence to risk judgment from others less comfortable with remote thinking and flights of imagination. Maslow wrote, "This ability to express ideas and impulses without strangulation and without fear of ridicule from others turned out to be an essential aspect of self-actualizing creativeness" (Adams). Instead the open-minded creative person is "unfrightened by the unknown, the mysterious, the puzzling and often positively attracted to it" (Adams).

This need for ego strength is addressed in Sternberg's papers covering his notion of the Investment Theory of Creativity. The concept here is that creative people buy low and sell high with their ideas, much like the equity markets. The outlier idea may be mocked or misunderstood by the larger culture, but creative people hold to their belief and in time will "sell" the idea at its height when others have underdtood its value. Creative people, in other words, are often ahead of their time. The necessary quality of ego strength and self-efficacy in these risk takers was verified in the studies of Beghetto (Runco).

Openness of mind is required not just for coming up with new ideas, but also for being able to see the potential in accidental occurrences. Many innovations in today's marketplace began as haphazard accidents or mistakes. But it required an open, aware individual who was able to witness the event and see its implications, while others less mindful missed seeing it altogether. The vulcanization of rubber, penicillin, Teflon, scotch guard, Gore-Tex, and microwave ovens were all developed from accidents in the laboratory that might well have gone unnoticed if not for open-minded people remaining vigilant to their surroundings.

Vigilance

A person with a sword should not be negligent even for a moment.

—*S.W. Wilson*

Both a Samurai and a creative person know that constant readiness, vigilance, and focus in the moment are the requirements of survival and innovation.

And Hellman said, "Do not think that winning is simply a matter of cutting the enemy. You should think that victory is not allowing the enemy to cut you." This state of readiness is akin to the concept of mindfulness that is receiving increasing attention these days for its value for stress reduction, balance, health, and creative presence. If we can learn through mindfulness practice to release our preconceptions and the grip of our conscious, thinking brain, we can allow ourselves to fully utilize the world around us. This may include taking walks in nature to clear our minds by being with natural elements, or meditative practice to learn to focus the busyness of our brains.

Mindfulness teaches us to realize that "human freedom involves our capacity to pause between stimulus and response and, in that pause, to choose the one response toward which we wish to throw our weight. The capacity to create ourselves, based upon this freedom, is inseparable from consciousness or self-awareness" (May).

The success of introducing these ancient practices in today's workplace is evidenced in the popular work of Chade-Meng Tan at Google. His bestselling book, *Search Inside Yourself: The Unexpected Path to Achieving Success, Happiness (and World Peace)* has expanded into **Search Inside Yourself Leadership** experiential trainings offered by top creative corporations to improve the lives and workplace success of their talent.

Eastern mindfulness practices, like those of the Samurai, find natural alliance with organizations striving to keep their creative edge laser sharp.

Cross-fertilization

The original purpose of the tea ceremony is to purify the 6 senses-cleanse the eyes by looking at scroll and flower arrangement, the nose by incense, ears by listening to hot water being poured; mouth by taste of tears; arms and legs by correctness, etiquette and form. Once the 6 senses are cleansed, then the mind's sensibilities are purified.

—*Tsunetomo*

Samurai recognized the value of learning all aspects of the mind. Brushstroke painting, calligraphy, flower arranging, poetry, and haiku, performing the perfect etiquette and respect of the tea ceremony were all required training for a warrior. The mind was trained to make itself one, to merge, with the brush, the paper, and the ink.

Creativity is enhanced by our talent's increased knowledge of multiple disciplines. Companies are broadening perspectives by offering figure drawing or pottery classes, speakers and presentations on a wide range of topics, artist residencies all to expand the creative connection making possibilities of the mind.

Companies' innovation efforts benefit from having extensive networks that reach through and beyond the company walls. The unexpected information exchange and intelligence gleaned in casual social connections serve to keep the organization abreast of new technologies and trends. Pixar famously built its California headquarters with a single bank of restrooms to encourage the kind of social exchanges and networking of ideas through new contacts that might not otherwise occur.

"Weak ties are more likely to provide connections to people with diverse viewpoints and perspectives (providing) access to more nonredundant information. These ties facilitate creativity because they provide cognitive stimulation equivalent to strengthening creative "muscles" (Perry-Smith).

Collaboration

Most men conclude matters based on their own opinions which prevents them from rising to a higher level.

—*Y. Tsunetomo*

It is a mantra of today's creative workplace, and especially of Silicon Valley, that collaboration is an essential creativity behavior. Gone is the idea of the lone, brilliant creator single-handedly producing breakthrough ideas in a silo. From Ideo to Pixar to Google, collaboration is king. Ideo is known for a culture of helping (Amabile, Fisher, and Pillemer), where employees at every level, regardless of hierarchy, are expected to assist and collaborate voluntarily, with time built into employee schedules to encourage this.

The Samurai code of Bushido was very clear about collaboration: "Higher wisdom," it is written in the Hagakure text of Samurai practices and virtues, "is accessed through dialog with others" (Tsunetomo). It suggests "the best way to outdo your colleagues is to ask for their advice about your own ideas" (Tsunetomo).

There is no greater example of this collaborative mindset and its value in enhancing innovative practices than the Japanese business practice of Kaizen. By acknowledging that every worker at every level of the organization has a unique and valued perspective on how to innovate within the company, workers are motivated and empowered to offer copious amounts of creative suggestions. Rather than thinking that creativity is not who they are, all workers demonstrate responsibility for exercising their viewpoint and sharing it with pride, despite no significant monetary reward. This is intrinsic motivation at its finest.

Collaboration is essential to the modern creative leadership practice described by Joseph Raelin as "leaderful practice." While it is grounded in democratic leadership and emotional intelligence principles, it also harkens back to the Samurai virtues of respect and collaboration. The four C of leaderful practice are collective, concurrent (leader and follower), collaborative, and compassionate (Raelin). Each of these is a Samurai principle of right-minded behavior.

In a further echo of emotional intelligence and leaderful practice, the Hagakure taught Samuari, "Be sure to engage with somebody fully as you converse—regardless of how inspiring your comments may be, they will be ineffectual if the other person is not following you" (Tsunetomo).

Death and Courage

Facing death every day, the Samurai warriors had to go beyond life and death in order to live with courage and equanimity, and the practical teaching and practice of Zen enabled them to do so.

—*Yamamoto*

The link between death, Samurai training, and today's creative imperative is uncanny and fascinating. The Samurai welcomed death as their challenge to live life at its fullest. Samurai literally means, "to serve." Dying in the name of service was righteous.

What does the creative act have to do with welcoming death? It is our innovative actions that may prevent our company's extinction in today's fast-changing, globally connected, digital world. It is how we will survive and thrive or be caught unaware and be as obsolete as a Betamax tape, eight-track player or My Space. We also must, as leaders, be willing to recognize when it is time to terminate existing products and services to risk taking new directions forward. IBM's move beyond hardware to provide service solutions is one example; Apple's decision to stop producing ear buds with wires is another. It's often referred to as moving outside our box, or getting unstuck. Being open to death means being open to new life, new creative potential including creating tomorrow's industry disrupters. As Picasso said, "Every act of creation is first of all an act of destruction" (May).

Psychologist Rollo May suggested, "By the creative act we are able to reach beyond our own death. This is why creativity is so important and why we need to confront the problem of the relationship between creativity and death." (May)." Creativity is a yearning for immortality. We know that each of us must develop the courage to confront death. Yet we also must reel and struggle against it. Creativity comes with this struggle—out of the rebellion, the creative act is born (May).

Motivation

There are two kinds of willpower—internal and external.

—*Y. Tsunetomo*

The importance of motivation is an essential topic in the field of creativity research. Dr. Teresa Amabile's componential theory of creativity states that creativity relies on three essential abilities: the knowledge of creativity skills, domain knowledge (your endeavors or field of inquiry), and motivation. In researching motivation, Amabile found that intrinsic motivation produced far greater creative results than motivations spurred by extrinsic reward (Amabile). Samurai were the epitome of intrinsic motivation, even willing to die in the effort.

In her 2015 book, *The Progress Principle* Amabile's research found that the greatest incentive to keeping employees retained and satisfied was a sense that their work mattered, and that progress was being made. Their motivation and their satisfaction were significantly heightened compared to offers of salary increases, bonuses, or benefits (Amabile).

Honor, Compassion, and Service

Perhaps the Samurai's dedication to serving humanity with integrity and honor is not very different from today's knowledge workers and the values of millennials in the workplace. As Samurai strove to better themselves with training, discipline, and regimented practice, today's organizations, too, are required to be ongoing "learning organizations" where workers are constantly bettering themselves to keep ahead and to serve society.

There is a growing recognition of workers' desires to serve a greater good, to address a need in the world through social conscience and justice. Today's consumers are increasingly looking at the mission and values of the companies they support. Having a commitment to a social mission is increasingly viewed as a virtue organizations today need to address and incorporate into their purpose. This purpose-driven life of integrity was certainly the cornerstone of Samurai culture. In the wake of scandals of integrity at Takata airbags, Wells Fargo, BP, Enron, and Volkswagen to name a few, consumers are increasingly looking to support organizations aligned with higher values of social good.

Deliberate Creative Practice

In conclusion, realizing that creativity and innovation are essential to our survival, it behooves us to reeducate everyone in our workplace on how to utilize and enhance their creative abilities. This means debunking all the mythology around creativity and inspiring everyone to participate in making our organizational cultures sustainable engines of new ideas, imaginative thinking, and innovation. It must be plainly articulated that everyone is required to be creatively engaged and participatory in their jobs, as well as collaborative in assisting others.

A "deliberate creative practice" should be implemented as part of our organizational cultures, offering trainings in creativity skills, events, and speakers to continually catalyze creative thought, along with an expansive attitude of risk taking. Our organizations currently train and coach to achieve enhanced productivity, improved quality control, efficiency and cost savings with TQM, Six Sigma, and Lean methodologies. Will we take the trainable skills of creativity as seriously, since our longevity depends on it, and prioritize the resources that will make us all creative warriors? Will we commit to training an organization of vibrant, excited, creative participation?

Caught in the crosshairs of impending obsolescence, only creativity will spark the innovations that can save us. Viewing creativity as a martial art gives it the power, the urgency, and the life force to empower your talent to steer your organizations creatively forward to be the innovation leaders in your field.

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Chapter 40

Reimagining the Twenty-First-Century Employment Relationship: Aligning Human Resources and Corporate Social Responsibility Through Employment Policies and Practices

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No company would say, at least publicly, that it does not believe in taking care of employees or customers. No company would say publicly that it pursues mediocrity rather than excellence. But too often, the values written in the company values statement are not the values followed by the people who actually make decisions.

(Ton, Zeynep 2014: 195)

Introduction

We want to catalyze a conversation about the modern employment relationship that acknowledges current interconnected business realities and fosters greater alignment between companies' *espoused* commitment to employees through formal employment policies and *actual* employment practices. Human resources management (HRM) has often limited its relationship with corporate social responsibility (CSR) to discussions about how HR departments can implement sustainability programs (Wirtenberg, 2010), but we want to move the conversation beyond "going green" to consider what makes a company a good place to work in the twenty-first-century.

We encourage firms to "practice what they preach" or, more formally, align their employment policies (what they say) and employment practices (what they do), because this affects what we are defining as "employee CSR." Espoused values, or what Argyris and Schön (1996) call "espoused theory," represent the aspirations of the company, but academics and practitioners alike are all too aware that these often do not translate into "theory-in-use," or actual corporate or managerial actions and behaviors. We believe this failure of companies to "walk the talk" is a major cause of employee disengagement and discontent, which we demonstrate through social media postings. In an increasingly interconnected world, the prevalence of social media platforms, such as Glassdoor, Indeed, or Yelp, where applicants or current/former employees can anonymously review their employment experience, means that a firm's misalignment between policies and practices will not stay secret, and cannot easily be changed. Similar to the warnings that abound about how young professionals are being told they must manage their "online reputations" and that nothing on the Internet can ever be removed, corporations, too, need to be aware of and manage their online reputations since such a presence operates as an interface between the organization and society, particularly potential employees and customers.

At the close of the twentieth century, Ashkenas, Ulrich, Jick, and Kerr called attention to the need for a new world order in their seminal book *The Boundaryless Organization* (2002): "It is a social and economic revolution that is manifest in a new order for organizations as they shift from rigid to permeable organizational structures and processes." Organizations must operate at this interface, or what Jean Lipman-Blumen (1996) calls the "Connective Edge," in the twenty-first-century, and therefore managers and scholars alike must think of organizations as dynamic, fluid, living organisms, where the artificial boundaries that once shaped them are ever shifting underfoot (Wirtenberg, 2016).

In this chapter, we apply a multifunctional, transdisciplinary approach, and consider human resources, law, and management, and particularly corporate social responsibility, to start reconceptualizing the notion of "employee CSR" and how it should be put into practice. To provide a real-world perspective on the issues relating to alignment and how they affect our notion of employee CSR, we have gathered both qualitative and quantitative data from a sample of ten companies recognized as being "good corporate citizens" in multiple rankings. We then select three standout organizations and provide "minicases" that compare and contrast four unique perspectives on these firms from our data sources: (1) what *consumers* are saying; (2) what *external analysts* are saying using publicly available documents; (3) what the *companies* themselves say in formal corporate reports; and (4) what *employees* are saying via social media postings. Minicases for the other seven organizations are available by request from the authors or available at http://sef-tm.wikispaces.com.

Microsoft

In its 2014 Corporate Citizenship Report, Microsoft includes commitments and performance highlights in six key areas: (1) ethical business conduct and governance; (2) our people; (3) serving communities; (4) human rights; (5) responsible sourcing; and (6) environmental sustainability. Consumers believe this commitment, with Microsoft ranked as number 2, with an overall score of 72.1, in the 2014 CSR RepTrak® rankings generated by the Reputation Institute. External analysts also seem to agree, with Microsoft ranking number 4 overall (with a score of 54.6) in *CR Magazine*'s 2014 Best Corporate Citizens list.

Regarding its relationship with its employees, Microsoft desires to create a "dynamic work environment that fosters collaboration and inclusion among our diverse and global workforce, [and] which yields exceptional personal and professional growth for our employees" (2014: 24). It reports that 86 percent of employees responding to an internal employee poll recommend the company as a great place to work, 90 percent feel proud to work for the company, 93 percent feel that they are treated with dignity and respect by their managers, and 88 percent feel their work group values diverse opinions (2014: 24). Employee ratings on Glassdoor broadly align with Microsoft's figures, with 85 percent of reviews recommending the company to a friend. *On Glassdoor, Microsoft scored 4 out of 5 overall, and 95 percent of employees approve of the job the CEO is doing.*

External analysts agree, with Microsoft ranking number 9 in employee relations in *CR Magazine*'s list, while KLD reports six strengths in the area of employee relations and no attendant concerns. However, Glassdoor comments reveal that employees have significant concerns related to work/life balance and performance management. *Out of the nearly 16,000 reviews of Microsoft, work/life balance was listed as a "pro" in 1,627 reviews, but as a "con" in 958 reviews. Over a thousand reviews complained about Microsoft's review system.* Specifically, it appears that Microsoft used to have a formal policy and practice of "stack ranking" its employees which many researchers consider ineffective and which, according to Duggan (2014), can be demoralizing, Although Microsoft has apparently abandoned a formal stack ranking system according to Glassdoor reviews, a telling review from a current employee in 2016 stated, *"Stack Ranking went from Overt to Covert," and multiple reviews indicate that the spirit and practice of stack ranking is alive and well at Microsoft, even though the policy is no longer in place.*

Additionally, Microsoft views diversity as a source of strength, and has clear and measurable companywide goals to increase representation of women and ethnic minorities, particularly at senior levels of the organization (Microsoft, 2014). KLD reported two strengths in diversity and no concerns.

Millennials' Culture of Connectivity Calls for Redefinition of the Workplace

Given the generational shifts occurring in the workforce of the twenty-first-century, it is imperative to identify employment policies and practices that allow firms to engage with "the millennial generation," who take a more fluid view of organizational boundaries (Stallard, 2015). Millennials are rapidly becoming the dominant segment of the workforce and have already broadened traditional recruiting practices to include “social recruiting,” leveraging “social and professional networks, both online and offline, from both a candidate’s perspective and the hiring side, to connect to, communicate with, engage, inform, and attract future talent” (Meister and Willyerd, 2010: 95). Millennials desire to work for, and support companies, with strong values and reputations, a track record of service to their community, and a “genuine desire to make the world a better place” (Behrens, 2009: 20). Millennial *employees*, therefore, require flexible benefits and rewards that provide them with the ability to blend work and life. Thus attracting and retaining millennial talent requires firms to rethink how they manage employment relationships. Similarly, appealing to millennial *consumers*, who possess an estimated $200 billion per year in buying power (Schawbel, 2015), is a financial imperative for organizations to succeed in the twenty-first-century. Given these generational shifts and imperatives, how can organizations in general, and HR in particular, best respond to reconceptualizing the employment relationship which, in many ways, is an outdated carryover from the past?

The Nature of a New Employment Relationship

The employment relationship is the foundation that undergirds the entire world of work as we know it. It comprises the principles that define an organization’s aspirations: how the business strategies, key drivers, and performance expectations of success are communicated and understood; how the workforce is motivated, prepared, and equipped to handle the changes in the business; how development opportunities are provided to enhance business and individual performance; how employee groups and unions as well as management work together to improve the business; and how stakeholders collaborate—both inside and outside the organization—as the basis for the company’s success.

The employment relationship is manifested as a psychological contract between the firm and the employee and goes beyond written values and policies to consider how those values and policies are effectuated in day-to-day practices. Key domains implicit in this relationship are: the company’s expectations about employee loyalty; the employee’s and firm’s views about job security; and the role of the company in supporting the employee’s future employability in the marketplace, including such things as skill and career development. In the “boundaryless organization,” employees demand transparency regarding corporate direction and goals. They greatly value and expect the opportunity to have their voices heard, and they place great importance on two-way or 360-degree communication.

CSR, Employees, and Value Creation

Corporate social responsibility (CSR) concerns all managerial “actions that appear to further some social good, beyond the interests of the firm and that which is required by law” (McWilliams and Siegel, 2001: 117). Although CSR initiatives are often equated with sustainability and humanitarian/charitable efforts, such initiatives should include managers’ decisions that “consider the impact their decisions will have” on all of a firm’s stakeholders, including “customers, employees, suppliers and communities, as well as their shareholders” (Trudel and Cotte, 2009: 61–62). Research on the link between CSR and corporate financial performance (CFP) has often focused on the question, “Does it pay to be good?” (See, e.g., the Trudel and Cotte, 2009, article by the same name) by considering whether consumers will pay more (or, at least pay enough for the company to recoup any extra costs incurred) for ethically produced goods. Results of such studies are unclear; ranging from flat, positive, negative, or a curvilinear/U-shaped effect. The consensus, then, is that there must be other factors at play, and research has shown, for example, that this relationship is mediated by the role of intangible resources (Surroca, Tribó, and Waddock, 2010), which, we propose, includes intangible resources like a firm’s human capital and a firm’s reputation as a “good place to work,” both of which we include under our definition of “*employee CSR.*” Stakeholder attention has also been shown to mediate the CSR-CFP link (Madsen and Rodgers, 2015), which, we suggest, includes especially employee-stakeholder attention to the potential misalignment of espoused values and actual practices, as well as consumer-stakeholder attention regarding a firm’s reputation as an employer. This aligns with strategic HR literature, where there is clear acceptance of the “key role of workers and the importance of workers’ perceptions and behavior in understanding the relationship between HRM and performance” (Guest, 2011: 5).

Designing and Implementing CSR into HR Employment Policies and Practices

Thus, the question becomes *how* should we conceptualize the role of employees in CSR? We believe the bulk of prior literature on CSR has underplayed the important value of talent management. Talent management should be both “a philosophy and a practice” and represent “an organizational mindset or culture in which employees are truly valued; a source of competitive advantage; an effectively integrated and enterprise-wide set of sophisticated, technology enabled, evidence-based HRM policies and practices; and an opportunity to elevate the role of HR practitioners to one of strategic partner" (Hughes and Rog, 2008: 746). We believe the obvious choice is to broaden traditional definitions of CSR to explicitly include not just consideration of employees, but a broad notion of employee CSR based on this definition of talent management. Organizations promoting this version of employee CSR will, we believe, reap financial benefits—not only from their employees, from whom they should now be better equipped to garner commitment, unleash passion, fuel innovation, and maximize employee performance— but also from consumers who care how an organization treats its employees.

The next question is what practical steps organizations can take in order to embrace this notion of employee CSR. Acknowledging that there is no "one size fits all" solution across organizations, we believe the starting point should be for organizations to "walk the talk" and *align* their espoused HR policies ("what they say") with their enacted HR procedures ("what they do") across key categories of: (1) attracting and retaining, (2) developing, and (3) supporting the transition, of employees.

Policies: What You Say

With HR policies, there is an important difference between "carrots," policies used to entice employees, and "sticks," policies meant to punish employees. For instance, consider a firm desiring to reduce employee turnover: a "carrot" policy would be offering increased benefits, while a "stick" policy would be a noncompetition agreement that limits employees' future opportunities. Which mechanism is appropriate will be unique to each firm, so next we only broadly identify applicable policies across our three key categories.

In the first category, attracting and retaining talent, firms consider how to appropriately manage staffing and selection. After identifying candidates, firms must address their first impressions, which include policies that become apparent during interviews, such as visible working conditions, as well policies emerging during the official contracting stage, such as offer letters or employment agreements. Offer letters and employment agreements themselves contain policies related to compensation, confidentiality, solicitation of customers or other employees, or noncompetition agreements. Also included are other, generally written, policies exchanged between firms and employees, such as employee handbooks, mission or vision statements, and codes of conduct. Retention of employees is similarly governed by many of these, often written, policies, and may additionally be influenced by the second category: policies addressing how firms develop talent.

Developing talent requires managing the day-to-day functions of employees as well as preparing them for the future, whether within a firm or without. Talent development therefore includes evaluative policies, such as performance reviews, as well as formal training or development programs such as tuition reimbursement, mentorship opportunities, or internal career transitions. Also included is problem management, such as performance improvement plans or workplace disciplinary procedures.

The final category, transition supports, includes policies that govern the employment relationship after an employee departs. Obviously, this includes formal separation or severance agreements, but also includes firm alumni programs or policies on rehiring former employees. Similarly, many firms offer transition programs that include access to career counselors, résumé editing services, or other support.

Practices: What You Do

As the minicase studies in this chapter demonstrate, however, firm policies can be "lip service," and what truly matters are these polices in action, which we define as firm *practices*. Firms must ask, then, about each policy whether it is "practicing what it preaches." If not, at best the firm may be regarded as overly bureaucratic (such as firms that have policies for only regulatory reasons but do not actually enforce them), or the firms risk being seen as hypocritical, particularly if the firm practices are viewed as benefitting management at the expense of employees, and, at the far end, firms may risk litigation from employees.

Moreover, corporate culture is more defined by firm actions than written policies. A firm's policies-in-action are a form of social exchange that goes beyond contractual methods to address the social interactions between firms and employees. Thus, the employment relationship goes beyond what is contained in an employee's offer letter and becomes a social-interaction-driven psychological contract. Under social exchange theory (Blau, 1964) and the social norm of reciprocity (Gouldner, 1960), "employees who perceive an organization's actions toward them as beneficial" respond with "positive attitudes and may feel obligated to reciprocate and be motivated to exert more effort at work" (Melián-González, Bulchand-Gidumal, and López-Valcárcel, 2015: 907). Firms that practice what they preach should, therefore, secure rewards from aligning espoused policies with actual practices.

Johnson & Johnson

Through its family of companies, Johnson & Johnson (J&J) is "the world's most comprehensive and broadly based manufacturer of healthcare products, as well as a provider of related services for the consumer, pharmaceutical and medical devices and diagnostics markets" Johnson & Johnson (2013: 9). The company is widely known and revered for having one of the most powerful sets of core principles driving its business as embodied in its credo. "Our commitment to citizenship and sustainability at Johnson & Johnson is inspired by what was written more than 70 years ago in Our Credo. To this day Our Credo serves as the compass that guides all decisions at our Company. Our Credo defines our responsibilities to all stakeholders and to the communities in which we work and live." (2013: 2)

External analysts extol the company's virtues as well. J&J ranked number 13 in the 2014 CSR RepTrak®, with a score of 68.6, and ranked second in *CR Magazine*'s list of America's Best Corporate Citizens. In KLD 2013, the company had two employee relation's strengths and no concerns, and two diversity strengths and no concerns. Overall feedback on Glassdoor supports the company and external analysts' perspectives. *With 3,000 total reviews, J&J scored 4.1; 89 percent of reviewers recommend the company to a friend, and the CEO received an extraordinarily high 97 percent approval rating!*

However, there were mixed messages from Glassdoor respondents in the area of work/life balance, and some concerning comments regarding J&J's credo. Work/life balance was included in 318 positive and 116 negative comments. On a positive note, one employee noted, "Great work-life balance and support from management to meet both work and family responsibilities. Very strong ethical and moral culture with the presence of the Credo." But other reviewers complained, "Minimum to no work life balance" and "Work Life Balance can be tough if [employees] don't define [their] own boundaries."

A then-current employee (2008) praised: "*J&J operates more or less according to their code of ethics, the Credo. Many companies have something like this, but J&J is probably one of the few that invokes it on a day-in day-out basis for making business decisions.* That is not to say that ***it is at times forgotten or even skewed to benefit a select few individuals***, but that is only select cases. J&J is excellent at communicating to their employees, personal development, and the management has an open-door policy and is very willing to share about their careers and career development with you. There are also potentially *limitless opportunities* given the sheer size and global presence in J&J and you are definitely encouraged to move around within the company."

A current employee in 2016 disagreed, "No one (internally) respects the Credo." This did not seem to be a new conclusion, with a 2010 current employee advising management that they "*Should practice what they preach* **(Credo)**." Another former employee in 2010 said: "Don't try to preach the CREDO (mission statement), if you can't practice it on a daily basis (especially from senior management)." Still another former employee (also 2010) cautioned others that the "*Credo is not practiced within. Senior management pay lip service to the Credo, and use it as a means of intimidation and bullying.*" Disagreeing with that, a current employee (2016) said: "The Credo is the center of all decisions." But the same employee cautioned, "*'Slow' culture that may not be progressive enough for the Millennial generation.*"

Aligning Policies and Practices: The Importance of Responsible Leadership

A misalignment between policies and procedures will be most salient to an organization's employees. In the Internet age and for the newly boundaryless organization, employee thoughts and feelings surrounding a misalignment will find a way outside of the organization! Therefore, responsible firm leaders must "acknowledge that corporations operate in an increasingly interconnected and globalized world and have to move toward more relational modes of interaction with all their constituents," particularly employees (Gond, Kang, and Moon, 2011:116). Justice and fairness in dealing with employees require appropriately managing employee expectations—not promising more than can be delivered and not failing to live up to expectations. If employee expectations are not realized, then firm leaders have created an ethically problematic situation (Greenberg, 1990) and negatively impacted the corporation's duty to its employees—affecting our notion of employee CSR. Worse, knowingly deceptive practices by firms undermine employee autonomy and show a lack of respect for employees as human beings. It is therefore the essence of responsible firm managers to promote alignment: "the activities and behavior of people at *every level* must be aligned with the main thing. When this happens, tremendous organizational power is created. The energy of the many is focused in a single direction. In its absence, energy is dissipated. ... This is why middle- and lower-level managers need to be as aware of alignment as people at the top." (Labovitz and Rosansky, 1997: 45).

Methodology

We considered data across four perspectives: (1) consumers, (2) external analysis, (3) the companies themselves, and (4) employees. In order to maximize data availability, we focus on 2013/2014 data, although, as discussed below, we include employee quotes from many years.

The *consumer perspective* is provided by the 2014 RepTrak® Global CSR rankings by the Reputation Institute, which are based on a global survey from tens of thousands of consumers, ultimately resulting in the Forbes 2014 Companies with the Best CSR Reputations list. The lack of variation in this list is surprising: the highest-ranked firm (Google) scored 72.7, while the last-ranked firm (Zara) scored 61.8—a difference of only 10.9 points. In order to be statistically different, company scores must differ by 0.9 points or more (Reputation Institute, 2014). Reviewing the scores for sample firms (Table 40.1), we see variation of only 7.6 points, despite ranging from number 2 to number 74 in the RepTrak® rankings. Significant variation among groups of firms (e.g., comparing top 5 firms versus top 10), however, indicates that there may be important differences in how consumers perceive corporate CSR reputations.

Company Name	Rank	Score
Microsoft	2	72.1
The Walt Disney Company	3	72
Intel	8	69.4
Johnson & Johnson	13	68.6
The Coca-Cola Company	29	67.3
Hewlett-Packard	49	65.9
Campbell Soup Co.	61	65.2
Nike	61	65.2
Boeing	65	65
General Electric	74	64.5
	(Out of 100)	(Higher is better)

Table 40.1 What Do Consumers Say?

Source: *Forbes Magazine* 2014 "Companies with the Best CSR Reputations" from 2014 Global CSR RepTrak® survey by Reputation Institute

To investigate these differences, we turned to *external analysts*. First, we considered *Corporate Responsibility* (CR) *Magazine*, which yearly ranks America's 100 Best Corporate Citizens. *CR Magazine* utilizes a weighted measure of 260 data points across seven dimensiousing publicly available data. (These dimensions are: climate change, employee relations, environmental issues, financial matters, governance, human rights, and philanthropy/community support.) Rankings and scores, as well as firm rankings for an employee relations dimension, are presented in Table 40.2. "What distinguishes *CR Magazine's* list is its seemingly exhaustive criteria: a list of 298 questions" across these categories (Adams, 2014: para. 3). Generally, our sample firms ranked similarly for overall CSR and employee relations; however, three firms had notable differences: GE ranked 30th overall but 111th in employee relations; Boeing ranked 86th overall but 394th in employee relations; while HP ranked 73rd overall but 19th in employee relations.

	Corporate Responsibility Magazine 100 Best Corporate Citizens 2014			MSCI KLD STATS 2013			
Company Name	Overall Rank	Overall Weighted Score	Employee Relations Rank	Employee Relations Strengths	Employee Relations Concerns	Diversity Strengths	Diversity Concerns
Microsoft	4	54.6	9	6	0	2	0
The Walt Disney Company	10	83.0	18	5	2	2	0
Intel	8	71.5	3	9	1	2	1
Johnson & Johnson	2	43.3	4	2	0	2	0
The Coca-Cola Company	9	82.9	7	4	1	3	0
Hewlett-Packard	73	154.6	19	7	2	2	0
Campbell Soup Co.	11	83.3	10	3	0	3	0
Nike	19	93.4	23	3	1	2	0
Boeing	86	162.0	394	7	0	2	0
General Electric	30	109.8	111	4	0	2	0
	(Out of 100)	(Lower is better)	(Out of 1,000)				

Table 40.2 What Do External Analysts Say?

To further investigate, we turned to MSCI's MSC database (presented in the second half of Table 40.2). KLD is widely regarded as the most comprehensive data available to measure CSR in academic literature and, despite some limitations, is believed have good empirical reliability (Walls, Berrone, and Phan, 2012). [Note that limitations include industry effects (Rowley and Berman, 2000) and potential issues around subjectivity (Entine, 2003).] Annual data come from 0/1 ratings utilizing publicly available data across many CSR categories, and include both strengths and concerns in each. Since KLD does not provide a summary ranking, we limited the data presented here to total "strengths" and "concerns" in the most relevant categories for our definition of employee CSR: employee relations and diversity.

Each of our sample firms publishes company reports that address topics of concern relating to corporate citizenship, sustainability efforts, and employee development. We have collected reports based on the closest available reports to the end of the 2013 calendar year, in order to be consistent with our other data sources. It should be noted that the fiscal year start and end dates for these companies varied considerably, however, and many reports are released several months after the close of a firm's fiscal year.

Although tempting to survey current employees, we wished to specifically address the role of social media. Glassdoor allows applicants and current or former employees to review companies on a web-based platform. Ratings on Glassdoor start in 2008, and we intentionally did not limit ourselves to reviews from 2013/2014 because we wish to consider firms' *online* reputations (see Table 40.3). Much like modern-day teenagers are cautioned that nothing on the Internet can ever be deleted, the rankings on Glassdoor are computed using all available reviews and can't be deleted by a company.

Company Name	Culture and Values	Work/Life Balance	Senior Management	Compensation and Benefits	Career Opportunities	Overall	Average Rating*	18-Month Overall Rating	Recommend to a Friend	Approve of CEO	Positive Business Outlook
Microsoft	3.8	3.7	3.4	4.1	3.8	4	**3.8**	Upward	85%	95%	73%
Walt Disney	3.9	3.4	3.2	3.5	3.3	3.8	**3.52**	Flat	78%	87%	60%
Intel	3.6	3.5	2.9	3.9	3.5	3.7	**3.52**	Downward	71%	58%	43%
Johnson &Johnson	4.1	3.8	3.5	4	3.7	4.1	**3.87**	Slightly upward	89%	97%	73%
The Coca Cola Company	3.3	3.1	2.8	3.5	3.2	3.4	**3.22**	Slightly upward	65%	74%	48%
Hewlett-Packard	3.8	3.8	3	3.2	3.1	3.3	**3.37**	Downward	61%	67%	35%
Campbell Soup Co.	3.7	3.6	3.2	4.1	3.6	3.8	**3.67**	Upward	81%	81%	52%
Nike	4.2	3.6	3.3	3.7	3.5	4	**3.72**	Flat	83%	95%	68%
Boeing	3.1	3.7	2.7	3.8	3.3	3.6	**3.37**	Flat	67%	83%	41%
General Electric	3.8	3.4	3.3	3.5	3.7	3.8	**3.58**	Flat	80%	87%	58%
			(Ratings are out of 5)				*Average is across all prior categories		(All percentages are out of 100%)		

Table 40.3 What Do Employees Say? Employee Ratings from Glassdoor, as of early February 2016

Nike

Nike opens its FY12/13 Sustainable Business Performance Summary Report by emphasizing a commitment to transparency: *"Transparency and accountability are fundamental to our business and our approach to sustainability."* (Nike, 2013: 3). At all levels, Nike dedicates itself to helping athletes reach their full potential, is committed to creating a culture of innovation, and embraces sustainability as an opportunity to constantly innovate. To help drive the creativity that fuels its brands, the company focuses on creating a talented, diverse, and inclusive employee base (Nike, 2013: 74).

Nike's people and culture commitments encompass extensive investments in employee development (e.g., 174,515 training sessions delivered online by NikeU since its launch in 2012). Employee engagement is measured by an "always open" pulse polling approach to gathering employee feedback and the creation of an "inclusion index" to gauge how the company is doing in creating an open and inclusive culture. By way of comparison, KLD reported three employee relations strengths and one concern (relating to supply chain controversies), and two diversity strengths and no concerns; the company ranked 61st in the 2014 CSR RepTrak®, with a score of 65.2, and 19th in *CR Magazine*'s list of America's Best Corporate Citizens.

Nike leaders receive support in: planning for, hiring, and growing talent, as well as aligning the company's strategy with team performance; celebrating and rewarding performance; and driving overall excellence across the organization (Nike, 2013: 77). *Comments on Glassdoor reflect a gap between the company's commitments and employee perceptions.* For example, a then-current employee (2011) warned: *"The Nike I read about [in the employee handbook] and the one I worked for are NOT the same!"* The same employee continued, *"If it says it in the Employee handbook JUST DO IT!"*

Regarding work/life balance, a then-current employee (2015) said: *"Lots of lip service to work/life balance—in the right group you may even experience it (I do)."* Supporting this, *work/life balance is listed as a pro in 129 reviews (including the above review), but as a con in 79 reviews.*

A former employee (2008) voiced discomfort with Nike's culture, including secrecy and privacy: "You've got to drink the Kool-Aid. You will be literally kicked off campus if you don't wear Nike shoes to work, or (worse yet) you bring a competitors' shoes. *Secrecy is big and privacy is huge*." Moreover, a then-current employee (2016) lamented about how the company culture was changing because of its sheer size: *"Nike no longer feels like family. It's getting really, really big. It's changed a lot with the growth but that's to be expected. What's not acceptable is to let 'Just Do It' die under a giant pile of red tape."* A current employee (2008) agreed about bureaucratic stiffness: "Internal communications are stale and corporate. Management classes and performance review processes are often rigid and disconnected. *I don't work here to 'increase shareholder value' or my own ego. I want to be a part of something I feel good about."*

Conclusion and Recommendations

The goal of this chapter is to start a conversation about the importance of incorporating the value of talent management, as enacted by alignment through a firm's policies and practices, into a definition of employee-related corporate social responsibility. Since this is but a start to what we hope is a thoughtful dialogue, we close by raising general conclusions and offering potential avenues for further research and discussion. Future research should address whether social media, such as Glassdoor, reflects a complementary view of employee experiences when combined with internal surveys, and should further probe the relationship among the various perspectives we have identified. For instance, is there a statistical relationship between the ratings or rankings firms have on Glassdoor, RepTrak®, *CR Magazine*, or KLD? How can practitioners do a better job of aligning perspectives from all their internal and external stakeholders?

Moreover, based on our review of Glassdoor comments from our 10 sample firms, the following themes appear across companies and time: (1) the importance of individual managers in shaping employee experiences; (2) the need for alignment and transparency between firm policies and actions (saying versus doing); (3) work/life balance, particularly when some employees find it while others cannot; (4) employees really do care about benefits—including the small ones, like snacks and coffee; (5) employees worry about stability, both among their ranks and among management; and (6) employees are concerned with the role of temporary workers or outsourcing that may go on in many workplaces around the country. This raises the question of how firms can address these concerns, or, to use our terminology from earlier, what principles, policies, and practices can firms implement to garner employee commitment, unleash employee passion, fuel innovation, and maximize performance? Firms in general (and perhaps HR practitioners in particular, since they are positioned uniquely within such firms) must first become aware of these issues and conduct a self-audit to determine whether there is a risk of their employment policies and practices being out of alignment. Red flags for such misalignment could include groups of employees having radically different experiences, or if it is clear that an abandoned policy is still rearing its head through the actions of individual managers. Of course, policies that are simply out of date should also be updated!

We believe future research should address whether certain firm practices are more hurtful or helpful than others in the attraction and/or retention of talent. In addition firms should consider methods in which our broad notion of employee CSR can be incorporated into HRM policies that are aligned with actual firm practices. The big question for academics and practitioners alike is how can we develop and implement talent management systems that help "boundaryless" firms adapt to a twenty-first-century information age interface between the firm and its stakeholders.

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Chapter 41

Making Ethics an Integral Component of Your Talent Management System

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Introduction

The concept of talent management has created a receptive audience for numerous books and research articles but also leaves questions unanswered, such as how to incentivize talented employees—those who produce exceptionally high results for the organization—while still being legal, ethical, and fair to all. This chapter applies the major concepts and guidelines of business ethics to recruit, develop, and compensate especially talented employees and provides a decision tree leading to an ethical talent management system.

The previous edition of *The Talent Management Handbook* (Berger & Berger, 2010), in the chapter "The Role of Ethics in Talent Management: How Organizations Ought to Behave" (Hallam & Hallam, 2010), we identified five key questions regarding human resource managers (HRM) ethics: (1) Whose ethical values should we follow? (2) Are business ethics any different from general ethics? (3) Can ethics be taught? (4) Should business leaders teach ethics to their followers? (5) How can we go beyond talking the talk? We suggested human resource managers look to the guidelines supplied by the Society for Human Resource Management (SHRM) as a starting point for a set of ethical values to follow and further suggested the U.N. Declaration of Universal Human Rights (1948) as another document often used as the basis for an ethical approach. Business ethics are a subset of general ethics dealing with the ethical challenges faced by decision makers in the field of business. HRM ethics are a subsection of business ethics regarding the responsibilities of HRM functions. Ethics can be taught, especially in HRM. Because much of what we know about what is right or wrong we learn as children, we enter adulthood with basic values, but we must continue learning to deal with bigger and more difficult problems as we mature professionally. Business leaders must first demonstrate good ethical behaviors and then teach subordinates what is considered right and wrong in the environment of their area of responsibility. We can go beyond talking the talk by establishing standards of ethical behavior, observing the resulting behavior, measuring it, making corrections, and, when necessary, enforcing sanctions against those who violate the organization's code of ethics. As noted in the earlier edition, SHRM provides the following guidelines (Society for Human Resource Management, 2014):

1. Respect the uniqueness and intrinsic worth of every individual.
2. Treat people with dignity, respect, and compassion in order to foster a trusting work environment free of harassment, intimidation, and unlawful discrimination.
3. Ensure that everyone has the opportunity to develop his or her skills and new competencies.
4. Ensure an environment of inclusiveness and a commitment to diversity in the organizations we serve.
5. Develop, administer, and advocate policies and procedures that foster fair, consistent, and equitable treatment for all.
6. Regardless of personal interests, support decisions made by our organizations that are both ethical and legal.
7. Act in a responsible manner and practice sound management in the country(ies) in which the

7. Act in a responsible manner and practice sound management in the country(ies) in which the organizations we serve operate.

We now focus on the ethics of HRM that are especially relevant when an organization is attempting to recruit, develop, and compensate high-performing and high-potential employees (Swailes, 2013). On the one hand we want to attract and encourage those who perform far above average, but we also have to consider item 5 in the SHRM guidelines that calls for "fair, consistent, and equitable treatment for all" (Society for Human Resource Management, 2014). For example, if 10 percent of employees are classified as high-performing and high-potential employees, how can we properly nurture the other 90 percent while also providing fair, consistent, and equitable treatment?

The War for Talent (Michaels, Handfield-Jones, and Axelrod, 2001) is a classic reference for how to define, develop, and reward exceptional talent within business organizations. It was based on five years of research on how companies manage leadership talent and surveys of 13,000 companies and case studies of 27 leading companies. The authors were consultants from McKinsey & Company. Since the publication of *The War for Talent,* numerous books and research articles have been published further developing the concepts and testing many assumptions about how to define business talent, how to recruit for it, develop it, and properly reward those whose talent produces exceptional business results. For a review of key studies, see *The Psychology of Talent Management: A Review and Research Agenda* (Dries, 2013).

While many of the concepts presented in *The War for Talent* are important considerations for all HRM professionals working to build a workforce of high-performing and high-potential employees, a significant problem appears early in the book. The authors praise Enron as an exemplar of a successful talent management program. "Creating a praiseworthy employee value proposition of implementing an exciting new type of company that encourages employees to engage in speculative deal-making, providing a chance to do something big, promising to turn commodity markets upside down, and especially providing the opportunity for these talented employees to make a lot of money" (2001, p. 48). However, by structuring the talent management system (TMS) to encourage and reward speculative deal making, it led to unscrupulous results. Enron CEO Jeff Skilling accepted the position at Enron on the condition that he would have complete freedom to hire whomever he wanted and manage them as he pleased. Skilling was sentenced to several years in prison for his illegal and unethical practices. Much has been written and even a movie has been made about the fall of Enron because the events took place at about the same time that *The War for Talent* was published. While the authors were putting the finishing touches on their book in 2000, Enron's stock was reaching a high of $90.75, but by November of 2001 was worthless. In December of 2001 Enron filed for bankruptcy. Later Arthur Andersen, then one of the five largest auditing firms in the world, also collapsed due, at least partially, to its involvement with Enron. Obviously Enron was not a good example to demonstrate the success of a talent management program (Investopedia, 2016).

More recently the scandal at Wells Fargo Bank provides a similar warning about over-emphasizing an HRM talent management policy that puts too much pressure on employees to achieve far-reaching corporate goals. On September 8, 2016, the Consumer Financial Protection Bureau, the Los Angeles City Attorney, and the Office of the Comptroller of the Currency fined the bank $185 million. It was alleged that between May 2011 and July 2015 more than 2 million bank accounts and credit cards were opened or applied for without customers' knowledge or permission. Employees were opening customer accounts to satisfy sales goals and earn financial rewards under the bank's incentive-compensation program. Top-level executives at Wells Fargo responded to the allegations by terminating some 5,300 low-level employees (Blake, 2016).

The scandals at Enron and Wells Fargo Bank underscore the importance of creating and implementing HRM policies that are designed to recruit and manage high-performing and high-potential employees while also meeting ethical and legal requirements. This is the focus of this chapter. Textbooks and other sources about business ethics typically identify a list of approaches to business ethics and then proceed to show examples of how each approach, while solving some ethical dilemmas, fails to adequately address others. This chapter provides a decision tree based upon the more popular business ethics approaches and, by examining the ethical questions together, provides a more comprehensive methodology for designing an ethical HRM talent management system.

Socrates defined ethics as, "the way we ought to live," while others have declared ethics to be the way we all should behave even when we are certain no one is watching. However, when we move past these broad and simple definitions and try to apply a consistent decision-making process to complex problems, further definitions are needed. What follows is a list of approaches to business ethics, no one of which provides a complete picture. However, by placing them in a decision tree, a business manager or even an entire business organization can develop a talent management system that meets as many of the following criteria as possible.

The following discussion draws heavily upon an earlier publication, *Principles of Management and Leadership* (Hallam, 2017).

Common Approaches to Business Ethics

1. *Legal approach.* Federal, state, and local laws affecting TMS include affirmative action plus Title VII of the Civil Rights Act of 1964. Affirmative action requires most business organizations to put forth positive efforts to hire and develop minorities who have suffered from past discriminations. Title VII of the Civil Rights Act of 1964 plus more recent amendments makes it illegal to discriminate in hiring and promoting individuals based on race, religion, color, country of origin, sex, age, and so on. Organizations that are affected by the provisions of these laws must be cautious in implementing a new TMS so as not to fall into the area of unlawful discrimination. A TMS, for example, that fails to hire any women, or African Americans, or anyone over 40 years of age, is immediately suspect.
2. *Utilitarian approach.* This approach to ethics is often described as, "Do the greatest good for the greatest number," or the corollary, "Do the least amount of harm to the smallest number." When a business manager is forced by a recession to lay off 20 percent of the company's employees, the justification is often that failing to lay off 20 percent now is likely to result in needing to lay off 100 percent later when the business goes into bankruptcy. One of the many problems with this ethical approach is the difficulty of accurately forecasting the future consequences of today's managerial decision. Even the smartest of business managers are sometimes surprised about the timing and intensity of both boom and bust economic conditions.
3. *Ethics of duty approach.* People in responsible positions, such as business managers, have a duty to do the right things to properly serve those to whom they are responsible. Managers must accept the fact that they have a duty to many stakeholders such as investors, employees, customers, and the community at large. The needs and desires of these groups are often opposed to each other. Investors want high returns, but employees want high salaries and benefits. Customers want high-quality products at low prices. A TMS that fails to uphold the organization's duty to all its employees, such as providing fair pay and benefits, is a violation of the ethics of duty approach.
4. *Respect approach.* A popular street phrase today is, "Don't dis me." This is short for, "Don't disrespect me." In some street situations showing a lack of respect may result in a fight. In practically all situations, showing disrespect for any human being is considered inappropriate. Managers must be careful to avoid showing disrespect for any of their employees from janitor to CEO. A TMS should walk the tightrope between providing special incentives to attract and keep highly talented employees while maintaining respect for employees who are performing well but are not gifted with exceptional talent. They may not be within the 10 to 20 percent producing 80 percent of the results, but they are still worthy of the organization's respect. Not everyone can be called a star, especially when stars are defined as the top 10 percent.
5. *Ethics of conscience approach.* Many researchers examining the source of our ethics describe how their research subjects report their conscience telling them what is right or wrong. Artists sometimes depict this by painting an angel on one shoulder and the devil on the other. We listen to the pros and cons of a dilemma and then make a choice based on what our conscience "tells" us what is right. Some describe it as "following their gut" or doing "what feels right in their heart." Many say that as we become more experienced, we need to "trust our gut" more frequently. Someone with a long history of being ethical is likely to have a well-developed conscience. Inexperienced new managers may need the help of other more seasoned managers to make the correct choice in complex ethical matters. In short, if the new TMS doesn't seem ethical to experienced HRM professionals, more work in refining it is recommended.
6. *Basic human rights approach.* This ethical approach is based on the belief that all human beings have certain basic rights, not because of their position, wealth, or talent but simply because they are human beings. The Universal Declaration of Human Rights passed by the United Nations in 1948 provides a widely acclaimed listing of those human rights every nation should provide to its citizens. The 30 articles of this famous document declare that every human being is born free and equal in dignity and rights and endowed with reason and conscience and should act toward one another in a spirit of brotherhood. Everyone is entitled to all these rights regardless of race, color, sex, language, religion, political or other opinion, national or social origin, property, birth, or other status (1948).
7. *Justice approach.* Outside of many courthouses a statue depicting Lady Justice stands blindfolded and holding a balance scale in one hand and a sword in the other. The blindfold is to represent that justice is blind to all but the facts and the law. Whether one is powerful or weak, male or female, rich or poor,

justice is applied equally to all. The balance scale is to weigh the evidence and the law and the sword is to enforce justice. The TMS must pass the test of justice—are all employees treated in a way Lady Justice would approve?

8. *Virtue approach.* The virtue approach to ethics moves away from particular actions and rules and instead asks, "What would a virtuous person do?" If you know someone highly respected for his or her ethics, what would that person think of the decision you are about to make? Would a virtuous person consider your new TMS ethical?
9. *Golden rule.* Most of the major religions around the world provide some version of the golden rule: "Do unto others as you would have them do unto you." A slightly different approach is: Do not do to others what you would not want done to you. Therefore, the first question a manager should ask before implementing a new TMS is whether he or she would consider that treatment fair if that manager were the one on the receiving end of that procedure. Would you want to be treated that way? What if you were not among the select few singled out for favorable treatment as a highly talented employee? Such special treatment would be better received by all if the method of identifying and measuring that "talent" were known to all and objectively observed by many.
10. *Prevailing culture approach.* Today many business organizations operate around the world where the prevailing culture differs greatly across borders. It is important to respect the prevailing cultures within each location. We do not have to agree with all cultures, and it is acceptable to favor our own culture to some extent, but to treat others as inferior because their culture is not the same as ours is bad business. No one wants to have to deal with the "ugly American" who lords it over others with a sense of superiority. To some extent the successful business manager has to follow the old adage of, "When in Rome do as the Romans do." Of course, an American has to obey the laws of the United States and, for example, not bribe foreign officials as forbidden in the Foreign Corrupt Practices Law. However, there is no need to insult others about their prevailing cultural attitudes and practices.
11. *Might Versus Right*. This ethical consideration warns us not to assume that success, whether on the battlefield or in the business world, is a justification for imposing our will on others. Just because we are managers at profitable corporations does not give us the right to infringe on the rights of others. Someone in a powerful position receiving an annual compensation 200 or more times the annual wages of the average worker in that organization can easily fall into the trap of believing that he or she must be more knowledgable about what is right or wrong than any of those more lowly paid employees far down the organizational chart. Ethics are not determined by power or wealth. Lord Acton made a good point when he claimed, "Power corrupts and absolute power corrupts absolutely." Don't let power go to your head and just assume you are right because of your job title. Thomas B. Macaulay, a British politician who lived in the early 1800s, said it well, "The highest proof of virtue is to possess boundless power without abusing it."

Summary and Recommendations

In summary, a successful TMS needs to not only help recruit, develop, and retain highly talented employees, it also must be ethical. The ethical decision tree provided in this chapter gives guidance while building such a TMS. It may not always be possible to work through the entire decision tree with the proper answers, and some organizations may want to add other ethical decision-making criteria. However, failure to even consider one or more of the decision tree questions may result in a talent management system that causes more harm than good. A major purpose of a for-profit business is, after all, to get and keep customers. A reputation of being unethical detracts from that purpose.

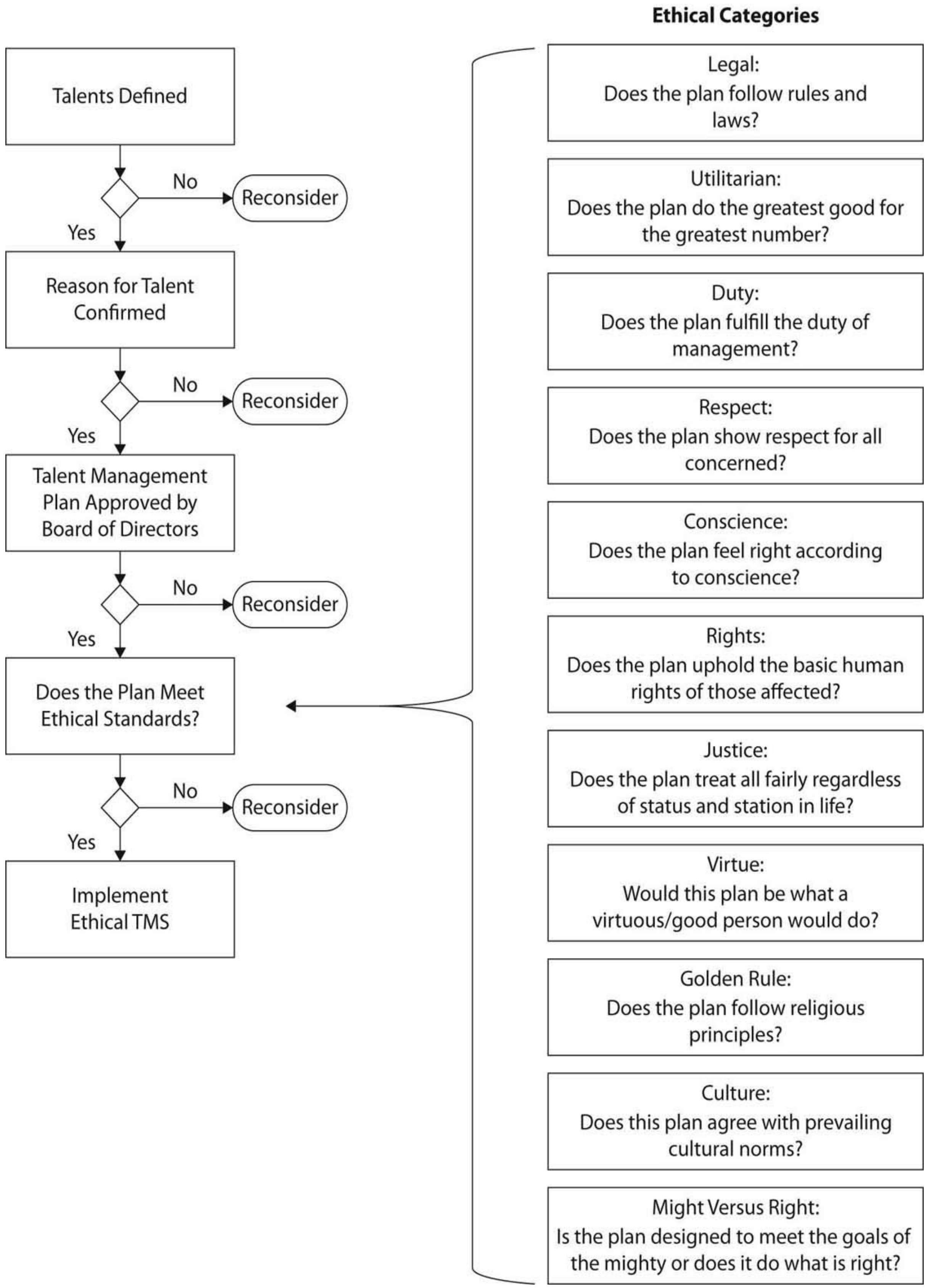

Figure 41.1 Guidelines for Ethical Talent Management

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Chapter 42

Building a Reservoir of Women Super Keepers

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The Leader's Edge/Leaders By Design

THE STATUS OF WOMEN IN CORPORATIONS HAS NOT IMPROVED SIGNIFICANTLY SINCE OUR chapter was published in the previous edition of the *Talent Management Handbook* (McGraw-Hill, 2011). In fact, at the current rate of growth, it will take another 100 years before we see gender equality, if ever at all. While there is more conversation and rhetoric about greater gender equality, there is not meaningful change. McKinsey and Lean's 2015 large-scale report[1] describes the lack of women's advancement into the senior ranks. Of the 325,000 women at the entry level, 150,000 made it into middle management, but only 7,000 women achieved the vice president, senior vice president, or CEO level.[2]

The myth has been that women are leaving corporate America to take care of their families. Contrary to popular belief, women are not leaving their organizations at higher rates than men. In fact, women in leadership positions are more likely to stay with their companies than men. At the senior vice president level, women are 20 percent less likely to leave than men. Women in the C-suite are about half as likely to leave their organizations.[3]

When women leave their companies, it isn't the pull of family that is causing them to opt out. It is the frustration, lack of advancement, and long hours that make them seek other opportunities. A study by Pamela Stone for Hunter College, found that 90 percent of the women surveyed left because of workplace problems.[4] As has been documented by Catalyst, the well-known organization dedicated to women's research, men continue to get the critical, high-profile assignments that gain them the senior management attention that leads to advancement.[5] Their budgets are twice as big, and they have the profit and loss responsibility required to be considered for C-suite opportunities.

So many women are starting new businesses in response to their frustration with corporate America. Women started more than 9.4 million new firms, employing nearly 7.9 million people and generating $1.5 trillion in sales as of 2015. Women-owned firms account for 31 percent of all privately held firms and contribute 14 percent of employment and 12 percent of revenues; 78.2 percent of female-owned firms are still operating since 2014.[6]

The Business Case

Women constitute an important economic force in the U.S. and global economies. Here are the statistics:

- Women make or influence 85 percent of all consumer goods purchased.[7]
- 80 percent of all healthcare decisions are made by women.[8]
- 60 percent of all healthcare products are purchased by women.[9]
- Over 60 percent of all personal wealth in the United States is owned by women.[10]

In addition to women's economic power, let's consider the loss of intellectual power by not having women in the senior ranks of companies. According to an article in *Harvard Management Update* (Donahue), "In today's knowledge based economy the absence of high-level women in corporations is a loss of intellectual capital, knowledge, and connections. The loss of good people also precipitates low morale and uncertainty among the staff and incurs the cost of recruiting, hiring, and training replacements."[11]

There have been numerous studies that show a correlation between the number of women executives and profitability. Credit Suisse Research Institute, in its 2014 report called "Women's Positive Impact on Corporate Performance," was one of the latest to state categorically that having women in senior management positively impacts corporate performance and stock values.[12] The report said, "Enhanced female participation in management should not be seen as a 'nice-to-have' or a necessary box ticking exercise imposed to satisfy quotas. More women in senior management improve companies' financial performance and make a difference for investors in terms of equity market returns." Figure 42.1 graphically depicts from 2005 through 2014 the positive financial return for organizations having at least one female senior executive.

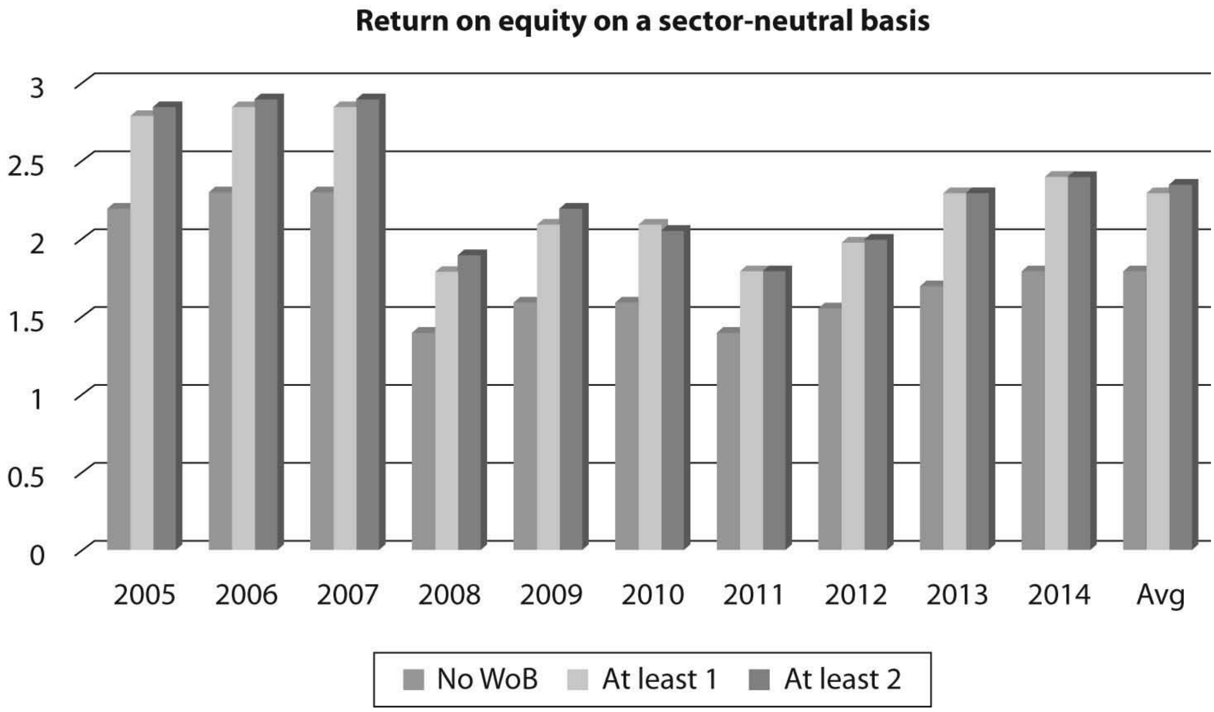

Figure 42.1 Building a Reservoir of Women Super Keepers

There are a number of potentially costly issues faced by companies either as a direct expense or potential revenue loss by not having women in their senior ranks:

- *Loss of market share:* As noted, with women making over 80 percent of the buying decisions in the $3 trillion consumer product market, there is significant potential revenue to be lost by eliminating even a portion of the market. If a company's human resources are not matched to the needs of the market segment, opportunities will be lost. The woman consumer clearly responds to marketing and makes buying decisions in a different way from a man. Therefore, the optimal business decision is to have women actively involved in creating and implementing strategies and in designing and marketing products and services that appeal to the woman's marketplace.
- *Creating diversity in senior positions within the corporation:* The unique perspective of female executives has been documented as leading to better business decisions, which translate to greater revenue and can produce better operating decisions that save the company money. Conversely, a homogeneous group may generate decisions with limited scope. With its narrow point of view, it is more likely to miss an option or a creative solution to a problem. Further, if a company exhibits a pattern of exclusionary behavior, it risks the threat of costly litigation that can affect shareholder value and generate negative publicity. This type of behavior will ultimately affect the cost of recruitment because it will be harder to persuade women and minorities to join a company without a demonstrated commitment to diversity.
- *Retention of female talent, which constitutes nearly half of the available workforce:* The cost of replacing an executive is generally calculated at one and one-half times current salary, which includes recruitment costs, replacement salary, and possible severance and litigation costs. There are a number of soft costs

as well, including loss of knowledge, client relationships, and morale of the other women in the company. Businesses that are serious about retaining women leaders should first determine the extent and cause of the problem and then become active in making necessary changes within the culture of the organization.

- *Integrity within the organization and the authenticity of its leadership:* Companies must articulate a cogent set of values and act on them in a consistent manner. For example, a leader who believes in diversity must ensure that the message is being reflected in the structure and composition of the organization and that there is consistency in the company's words, policies, and practices. When a company is perceived as inconsistent, sending confusing messages, or not being open and honest with employees, commitment is diminished. Untold dollars are lost in time wasted by employees speculating at the water cooler or coffee pot, discussing rumors and complaining to others, and time spent looking for other jobs. Additionally, there is a lowering of morale, a rise in performance issues, and, finally, an increase in attrition. Lack of authenticity and the inconsistent alignment between action and values are frequently cited reasons for women leaving an organization.
- *Accountability throughout the company, from the top down:* It is critical to the integrity of the organization that its leadership team be held accountable for carrying out the company's vision and meeting its goals. All members of the organization should get appropriate, ongoing feedback in order to determine if policies are being practiced at all levels. If leaders are viewed as exempt from accountability, it becomes clear to employees that the policy is not truly valued because there are no repercussions for failing to follow it. This behavioral gap between practice and policy is a key issue and one where many companies fall short. Whether it involves diversity goals, a respectful environment, or work/life balance, once employees, particularly women, no longer believe that the company is behaving authentically, there will be substantial costs involving commitment, retention, motivation, and recruitment of female talent.

What the Research Shows

The 2002 *Leader's Edge* research study[13] surveyed 100 high-level women who had recently left their companies voluntarily. The focus of the research was to determine why high-level executive women leave companies, what companies could have done to retain them, and what advice they would give corporate America.

The women cited four major reasons for leaving: the culture of the organization, being excluded from important meetings and pipelines of information, lack of career development, and lifestyle issues including flexibility, and life/family integration.

Other organizations have conducted similar studies. The list is similar in every case. Here are the top women's issues today:

- The lack of work life/family integration is a major issue for women. To many women it seems as if the message is that it is unacceptable to have a life apart from work. When men take time to be with their families, it is seen as generous or endearing. When women take time away from work, it is seen as not valid or important. Whether male or female the 24-7-365 is not sustainable. Women feel the brunt of this never-ending work cycle more deeply since they still carry more of the homemaking and childrearing chores for families. Yes, today there are flexible work arrangements in place. However, if only women use them, then they are again seen as not being committed to their careers in the same way as their male colleagues.
- Women who have children pay a double penalty. In many companies, hiring a woman or promoting her into a senior role means taking the risk that she will become pregnant and leave. The statistics as documented by Shelley Correll[14] don't bear this concern out, but it continues to haunt women. By virtue of having children, they are not seen as being fully committed to their roles and thereby less valuable as an asset.
- Equal pay has become a rallying call for women as they continue to fall behind their male counterparts. Today the wage gap is still about 23 percent, and women are no longer willing to be paid less for the same work. However, women also need to negotiate harder as they join organizations so they don't start out at a deficit. In some cases, when they do negotiate hard, it is seen as a negative and that the woman is "too aggressive."
- Culture continues to play a part in maintaining women in a lesser position than their male colleagues. Women walk a tightrope between femininity and authority. When a woman acts assertively, it is often viewed as negative by male superiors. The woman is seen as too aggressive, too difficult.

- The lack of career opportunities continues to be an issue for women. Women do not receive the same feedback that their male colleagues do. Also, while some companies talk about having diverse recruiting slates, the reality is that the male candidates are generally better known and have been given more significant budgets and greater responsibility. Selecting a woman, especially if she isn't as well-known as a man, is seen as taking a risk.

Retaining Super Keepers

There are a number of critical steps that companies can take to attract and retain their female talent. Women want the same things as men: equal pay, opportunity, and fair treatment. Companies have to commit dedicated resources to invest in women and develop a pipeline of qualified female talent from entry level to senior ranks, especially in male-dominated industries.

It is widely accepted that women start at lower salaries because they don't negotiate as hard as men do. Over time the wage gap grows. Companies can create greater pay equity by establishing starting salaries regardless of gender. Then companies can monitor salary increases to ensure that there is transparency regarding salaries and equal treatment for performance.

Companies can support women's affiliate networks with budgets so that they can provide substantive development programs for women. Many companies are creating programs that champion women internally with senior women acting as both role models and mentors. Women need sponsors in addition to mentors. Therefore, male leaders need to be encouraged to identify female talent, nurture it, and challenge it by providing choice assignments.

Women need flexibility to take care of their families. Having flexible work arrangements is a good step but not if the men see it as a career-limiting activity. If only women are encouraged to use flexible work arrangements, they run the risk of being seen as second-class citizens and not committed to their work.

One of the ways companies can attract and retain talented women is to have role models and demonstrate their worth. Having women on a company's board is one signal that women are viewed as important. CEOs should be looking for women who can serve on their boards. In Europe quotas have played a major role in promoting women to corporate boards. While this is an unlikely step in the United States, selecting women for board positions in appropriate numbers demonstrates a commitment to women internally and externally.

In addition, women benefit from additional training and mentoring. Women do not get the same level of feedback as their male counterparts and often are not included in strategic conversations. Mentors can play a significant role in helping women understand the political landscape and think about how to develop their careers. Mentoring is not enough. We find that women benefit greatly from specific training and coaching efforts aimed at broadening their horizons and focusing on executive presence—gravitas, communications, and appearance. Executive presence is an important element for both men and women looking to advance their careers. However, men get a lot of one-on-one informal coaching from their male leaders. Women are not as fortunate. Training women in group settings has been demonstrated to increase women's confidence, broaden their horizons, and increase their skill in handling the political environment.

Strategies and Guidelines

In order to create a more effective workplace and one that attracts, develops, and retains talented females, the company and its women employees should enter into an agreement on what steps each will take to improve the work environment. This new "employment contract" requires an acknowledgment that cultural improvement is necessary and recognition that it is a corporate priority. The accomplishment of this initiative involves a commitment from both sides of the equation, corporate management and female employees, confirming that each is responsible for contributing to its success. The "contract" entered into by the company is that it will take the necessary steps to address the needs of its female employees and support women throughout the organization. The women's portion of the contract is that they will be responsible for their own development and take advantage of the opportunities provided by their employer in order to be more effective business contributors. Following are some guidelines for the organization and its women.

Organizational Guidelines Checklist

Management

- Create a vision of the company as a diverse organization and share it with all employees.
- Conduct an assessment of the current situation, if it is not already completed.

- Create a "respectful work environment" and have senior management participate in education for managers and employees concerning diversity. Managers should lead this effort through their behavior.
- Identify opportunities for women to serve on outside boards and committees in representing the company.

Human Resources

- Establish business unit–specific diversity performance guidelines to attract and retain a diverse workforce at all levels of the organization, and hold managers accountable.
- Link talent management reviews with diversity goals for identifying women and minority candidate pools.
- Monitor equal employment opportunity/affirmative action (EEO/AA) and other employment-related data to identify and address diversity issues.
- Support flexible work options in situations where individual and department objectives can be met.
- Have the words from the top to connect to policies that lead to practices that reinforce the goals of senior leadership for having a community of employees that mirrors as best as possible the communities in which you live and work.

Development

- Create role models for identified leadership behaviors.
- Create information networks, supports, and resources for women to learn about leadership capabilities and opportunities.
- Identify and encourage mentoring opportunities that support the enhancement of critical leadership skills.
- Support networking groups.
- Create opportunities for visibility (taskforce leadership, presentations, etc.) for high-potential women.
- In the performance review process, give appropriate training to managers so that career development is truly discussed, as well as opportunities for lateral transfers, rotations, and new assignments, to give an individual the opportunity to increase and enhance skills so that women are not siloed in one area.

Women's Guidelines Checklist

- Build open and more effective networks in order to become better known, make important contacts internally and externally, and gather competitive and/or helpful information for the company.
- Identify and communicate strengths by having a clear, realistic picture of your talents.
- Study and refine communication skills, with the understanding that men and women communicate differently, in order to more effectively communicate ideas and strategies and be heard.
- Endeavor to be more risk-taking and strategic in terms of career growth.
- Use mentoring effectively by choosing the right mentor for a particular situation.
- Enhance personal presence and understand your leadership style.
- Learn to be politically savvy, to "play the game" and navigate the political arena.
- Become known internally and externally in order to gain credibility and clout.

Summary

The case is strong for businesses to rethink their approaches for attracting women and incorporating them into the workplace culture. Indeed, it is well beyond merely accepting the addition of a few token women in order to improve internal and public perception, but is of vital importance to the health of the organization. A diverse workforce is the face of the future and, from a practical point of view, with half of the available talent being female and the market demographics being increasingly diverse, it will be a necessity in order for businesses to be competitive. Diversity brings new viewpoints, styles of work and management, solutions to problems, and links with the marketplace, adding positively to the company's bottom line. Responsibility is twofold: the company must acknowledge the importance of cultural improvement, and the women in the company need to take responsibility for their leadership growth and career development. Once the behavioral gap is closed and senior management is committed, diversity on all levels within the corporation should become a matter of course.

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Part V

Global Talent Management

Chapter 43

Acquiring and Retaining Expatriate Talent

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EXPATRIATES ARE EXPENSIVE PEOPLE TO EMPLOY. EXPATRIATES ARE LEGALLY WORKING *professionals who reside temporarily in a country of which they are not a citizen in order to accomplish a career-related goal, being relocated abroad either by their organization or by self-initiation.*[1] Undoubtedly, attracting global talent in the form of expatriates is a competitive advantage for companies, as is developing, managing, and retaining them. Losing them to competitors not only hurts the bottom line, but it also disrupts succession pipelines. The Boston Consulting Group found that talent management is one of five key challenges facing companies, it being an important challenge that executives feel least prepared to manage.[2] Yet, the talent management process remains difficult to understand and to implement. Especially challenging is the growth in new forms of expatriates and other types of international work.

In this chapter, I examine several new approaches to help companies attract and retain expatriate talent. I look closely at talent management, and global talent management (GTM) in particular, to identify three criteria in the formulation of an effective global talent management agenda. Key takeaways from this chapter include: (1) a discussion of the purposes for which expatriation is used; (2) an overview of the types of international assignments companies use; (3) a detailed explanation of the various types of expatriates available to companies; and, (4) the types of expatriation employees typically engage in.

Talent Attraction of Expatriates: What Are We Dealing With?

As much as one might like to simplify a company's international operations, there really is no one-size-fits-all international work experience that fits all companies' needs. Rather, there are many options available. To attract the right talent, companies must first understand the four key elements of expatriation: (1) the purposes for which expatriates are used; (2) how long expatriates are expected to be assigned abroad; (3) the types of expatriates available on the international labor market; and (4) the types of expatriation employees can engage in. These four features of expatriation are interrelated, thus making the attraction of expatriate talent especially complicated.

Purpose(s) of Expatriation

For what purpose is expatriate talent needed? In other words, what purpose does expatriation serve and which types of international assignments *and* expatriates add real value? Research has shown that there are three major purposes for using expatriates: (1) to fill international positions when qualified locals are not available; (2) for management development; and (3) to help control, coordinate, and assist in the transfer of a firm's culture. Other reasons include: (1) fill a skills gap, (2) build management expertise, (3) launch new endeavors, (4) transfer technology, (5) enable managerial control, and (6) transfer corporate culture. McNulty and Inkson found that in addition to the above, expatriates are also used for: (1) corporate culture reasons (such as an old-boys network, or continuing to use expatriates because they have always been used), (2) functional requirements in terms of project-based mobility where a client requires consulting staff on-site, (3) financial reasons including for bottom-line-driven objectives or the cost advantages associated with using expatriates from a certain location (e.g., India), and (4) convenience reasons, for employees requesting self-initiated transfers for their personal benefit.[3] These reasons illustrate that just as companies differ greatly across industries, they will also have different reasons for using expatriates. Furthermore, when the purpose of an international assignment is understood (e.g., to control, coordinate, and assist in the transfer of a firm's culture), then the right expatriate talent can be recruited to align with that goal (e.g., an employee with executive management skills). Additionally, the expatriate can be trained and compensated in a manner that is closely aligned with retaining them. For example, if the purpose of an assignment is mostly knowledge transfer, an expatriate will be recruited or deployed with high technical expertise rather than superior levels of executive management experience.

Types of International Assignments

Once the company has determined for what purpose an expatriate will be deployed, it must then determine for how long the expatriate will be required to be abroad. The most common length of time for which expatriates are deployed is via a long-term international assignment, which typically involves a manager or technical specialist, often (but not always) from an organization's home-country base, who is assigned temporarily to fill a specific role or complete a specific project in an overseas subsidiary, usually over a predetermined period, perhaps two or three years.[4] After that time, the expatriate typically returns home through a process of repatriation and is then reintegrated into the organization. If the expatriate has an immediate family (as the majority do), then the family's needs in the foreign setting (for example, children's education) must also be dealt with both abroad and once back home. In addition to the long-term international assignment, expatriates can also be deployed in other ways and for other lengths of time (see Table 43.1). For example, expatriates can be engaged via short-term assignments of between 3- to 12-months, duration, in one-way transfers without any obligation to repatriate them to the home country, in indefinite assignments with no anticipated end date, in sequential assignments that do not involve repatriation in between, and rotational assignments of between one- to three-months duration between the home and host country. The choice of international assignment is dependent upon a range of factors, including the company's purpose for which the expatriate is being sent, organizational cost considerations (is a cheaper assignment needed? If so, then a short-term assignment may be more appropriate), and reasons why (or why not) an expatriate is (un)willing to go abroad (rotational assignments are often used to mitigate an employee's resistance to relocating abroad).

Type of Assignment	Definition
Long-term assignment	A temporary transfer normally lasting between one and five years, although often extended; the employee's family typically relocates.
Short-term assignment	A temporary transfer of between 3 and 12 months; the employee and family do not typically relocate.
Interregional assignment	A temporary transfer where the home and host countries are both within a defined geographical area (e.g., Southeast Asia).
One-way transfer	A permanent transfer where an employee severs ties with the home country and becomes a local employee of the host country, with no company-funded option to return to the home country.
Indefinite assignment	A temporary transfer that does not have an anticipated end date, but which is still intended as a temporary (rather than permanent) assignment.
Rotational assignment	A temporary transfer requiring an assignee to work for a designated number of consecutive days in the host country, followed by a designated number of consecutive days of leave (taken in the home country, host country, or another "leave location").
Sequential assignment	An assignee expatriated to another host country at the immediate conclusion of the original assignment without returning to the home country.

Table 43.1 Types of International Assignments

Source: Adapted from McNulty, Y. (2015). The Added Value of Expatriation: Assessing the Return on Investment of International Assignments. In Andresen, M., and Nowak, C. (eds.) *Human Resource Management Practices—Assessing Added Value,* Switzerland: Springer, (pp. 89–106).

Types of Expatriates

In addition to purpose and length of time abroad, there are also many different types of expatriates that companies can employ. Typically, most companies conceive of only one type of expatriate, commonly known as a parent country national (PCN) and defined as a citizen of the headquarters country location of a company from which they are then sent abroad. PCNs have been the mainstay of expatriate research and practice for more than 50 years. But in light of the dramatic changes occurring as a result of globalization, the supply of PCNs is waning, and there is a broadening demand for new and less expensive talent in emerging and other markets for which PCNs may not be well suited. New meanings of "expatriate" are beginning to emerge, among them *third country nationals* (TCNs), *expatriates of host-country origin*/returnees (EHCOs), *foreign executives in local organizations* (FELOs), *localized expatriates* (LOPATS), *inpatriates*, *permanent transferees*, and *expat-preneurs*. See Table 43.2 for an overview. Each of these new types of expatriate engages in various types of expatriation that may include the there-and-back one-off international assignments of the past (i.e., long-term international assignments), or any of the other types of assignments outlined in Table 43.1.

Expatriate Type	Definition
PCNs: parent country nationals	Citizens of headquarters country location from which they are sent abroad.
TCNs: third-country nationals	Originate from neither the home country where corporate headquarters is located nor the host country where they are employed, but a third country where they have lived either temporarily or permanently before agreeing to move to the host country.
EHCOs: expatriates of host country origin/returnees	Permanent resident of the parent country but belongs to ethnicity of host country and is hired and/or transferred by the parent country organization to the host location on a temporary assignment or permanent transfer.
FELOs: foreign executives in local organizations	Foreign individuals at the executive level who hold local managerial positions supervising HCNs in local organizations where they have their headquarters.
PTs: permanent transferees	Employees who resign from the home host country office and are hired by the host country office of the same MNE but for which there is no return (repatriation) to the home country, no guarantee of company-sponsored reassignment elsewhere, and only local terms and conditions offered in the host country.
Inpatriates: reverse expatriates	HCNs and TCNs of a subsidiary sent to parent country headquarters on an international assignment to provide them with an international perspective, exposure to corporate culture, and a network of contacts.
LOPATs: localized expatriates	Assigned expatriates (AEs) who, after completing a long-term host assignment contract, then transition to full country local terms and conditions in the host country as directed by either the employer or at their own request.
Expat-preneurs	Typically (SIEs) who: (1) after spending a significant amount of time in a local market leave their MNE to start a new business in the host country; or (2) relocate to a host country and start a new business there without any prior exposure in that market.

Table 43.2 Types of Expatriates

Source: Adapted from McNulty, Y., and Vance, C. (2017). Dynamic Global Careers: A New Conceptualization of Expatriate Career Paths. *Personnel Review*, *46*(2), 1–18.

In addition to the above, there are also many nontraditional expatriates who have previously not been acknowledged or adequately researched, including more women, married couples with no children or single and unaccompanied people, same-sex partnerships, and younger expatriates.[5] There are also increasing numbers of non-Western, particularly Asian, expatriates as companies attempt to expand their talent pool options regionally.[6] These nontraditional expatriates add to the complexity of attracting expatriate talent, largely because the context within which expatriation takes place has for years been dominated by the traditional view that international assignees are typically senior male staff members in their late 40s or early 50s, sent by a corporate Western headquarters to a subsidiary office in another country (and) they are almost always accompanied by their (often nonworking) wife and children. Over the past decade this view has changed substantially, mostly because conventional wisdom concerning the "traditional" international assignee has become not just unproductive, but counterproductive, as I will illustrate. Table 43.2 defines the various types of expatriates.

As future research progresses, more expatriate types are likely to emerge. For now, identifying the various types of expatriates available to companies is an important step in developing a global talent management agenda. This is because each type will dictate for companies how the expatriates are likely to be selected, compensated, and trained; where they should be looked for within international labor markets; how they may be supported to manage their careers; and how they can be retained for short- and long-term performance gains. Issues of retention become paramount as companies attempt to determine which type of expatriate is more or less likely to pose retention problems. For example, if long-term performance gains and succession planning are required for a particular expatriate role, then PCNs, inpatriates, and EHCOs would be good choices and would need to be managed accordingly in terms of cultural, family, and career support. If short-term performance gains are required and no succession planning is needed for a particular expatriate role, then other types of expatriates such as LOPATs and PTs would be a good alternative, because for these expatriates only short-term performance gains would be expected.

Types of Expatriation

In addition to the purposes for which expatriates are used, their intended length of time abroad, and the various types of expatriates that are available to companies, recent research has also categorized expatriates into two streams according to the type of expatriation they engage in: organization-assigned expatriation and self-initiated expatriation. Assigned-expatriates (AEs) are people whose careers often unfold within one organization which seeks to help them improve their career advancement within the company through multiple long-term assignments. AEs may, during their career, move from one organization to another—a familiar occurrence around repatriation time. AEs have been simultaneously referred to as *company-assigned expatriates* (or CAEs), *corporate expatriates*, or *company-backed expatriates*. AEs usually relocate abroad for periods of time of between two and five years, which is in line with them being provided traditional career management that is controlled and directed by the organization to facilitate a match between organizational and individual needs in pursuit of the organization's continued competitive advantage. AEs typically repatriate to the home country as deemed necessary. The crucial part of the definition is that their employer sends them.[7] Examples of AEs are parent-country nationals, third-country nationals, expatriates of host-country origin,[8] and inpatriates.[9]

In contrast to AEs, self-initiated expatriates (SIEs) are individuals who initiate and usually finance their own expatriation, are not transferred by organizations, and relocate often with no definite time frame in mind.[10] SIEs have only recently been identified in academic research, although they have been around for thousands of years. About half of SIEs work for multinational corporations and global companies,[11] with many organizations deliberately seeking to hire them to overcome some of the difficulties of staffing with AEs. Unlike many AEs, SIEs tend to be uninhibited by organizational and occupational constraints and are motivated to take charge of their careers rather than to wait for an organization to arrange for an appropriate career opportunity involving international work experience. SIEs are usually externally recruited, taking control of their careers outside the confines of the organization and thereby abandoning corporate intervention and security in favor of autonomy and flexibility. Unlike migrants, SIEs do not intend to stay abroad permanently even if their stay exceeds the typical duration of an AE stay of three to five years. Examples of SIEs include foreign executives in local organizations[12] localized expatriates, permanent transferees,[13] and expat-preneurs.

The distinction between AEs and SIEs has been an important one. The development of international business skills and gaining foreign work experience are increasingly viewed as an essential part of career progression for employees in global companies and are viewed as prerequisites for senior management positions. The traditional route through which this has been achieved—assigned expatriation—is nonetheless an expensive undertaking. SIEs thus represent an alternative expatriation model in the contemporary landscape of global talent management because they are cheaper to employ, notwithstanding that self-initiated expatriation brings with it additional challenges not typically faced by AEs in relation to SIEs' reasons for working internationally, their career aspirations and orientations, and retention issues (i.e., higher organizational mobility).[14]

Linking Global Talent Management and Expatriate Talent

Having explained the four key elements of expatriation, the crucial next step in formulating a plan to attract and retain expatriate talent is to develop a talent management agenda. Talent management is a field of human resource management (HRM) concerned with management issues related to high-performing employees (talent). The crux of talent management is that human capital (talent) contributes to a company's competitive advantage.[15] Yet talent is not readily available, and there are several factors that impede finding the right talent, among them increases in the migration of local talent (job mobility locally and internationally), an aging workforce, and the poaching of talent to and from competitors. These challenges have resulted in the "war for talent" where companies compete for the best talent available on the open market to fill their strategically important positions. Challenges associated with talent management are essentially the same for all organizations, but take on an extra layer of difficulty when the talent is required and deployed across geographical boundaries in the form of expatriates. Talent management with an international component is thus termed *global talent management* (GTM). Given how expensive expatriates can be to deploy, most expatriates are considered part of the global talent pool in that they are high-performing employees requiring a specialized degree of support and development. But not all expatriates are talent, as I will explain.

GTM involves three processes. First, the systematic identification of key positions that in part contribute to a company's entire competitive advantage on a global scale, and which is sustainable. Second, the development of a talent pool of high-potential and high-performing people to fill organizational roles that are in line with the global scope and reach of the company. Third, the development of a human resource plan that supports finding the best available people to fill the required roles and ensuring their continued commitment to the organization.[16] Minbaeva and Collings show that the connection between expatriate talent and GTM remains weak: many companies continue to use expatriates without linking them to developing future global leaders or to meeting their assignees' career development expectations. Nonetheless, it is these same companies that espouse the hiring of expatriates as broadening their organization's understanding of global markets and helping it to develop a global mind set. What, then, can companies do to link expatriate talent to GTM? The most effective way to attract and retain expatriate talent is to formulate a global talent management agenda that is specifically aimed at expatriates, and that addresses the following three criteria.

1. Take It Beyond HR

Several consultancy reports indicate that HR departments often have little capability to manage strategic talent.[17] This has led to widespread criticism that HR cannot appreciate the strategic importance of talent management because it does not have the relevant competencies to do so. To be fair, GTM is only a recent initiative, and business schools have only just begun to offer talent management courses in their MBA programs. Understandably, HR managers may not yet have the deep level of skill required to develop and manage talent management programs—but they will, in time. The issue of who should own the GTM agenda is a critical one. On the one hand, those outside HR (CEO, senior vice presidents, senior managers) need to be fully engaged in promoting GTM and setting the tone for talent management across the organization. On the other hand, HR is undoubtedly the most strategically aligned department to operationalize GTM from a centralized location. Doing so means that HR can integrate GTM across other policies, practices, and departments companywide, including international subsidiaries.

2. Save Money by Employing B Players (Not Just A Players)

Jack Welch at GE was famous for pioneering the "rank and yank" system whereby only the top 20 percent of high-performing employees were regarded as top talent (A players). The bottom 10 percent (C players) were considered low performers and were managed out of the organization, with the remaining 70 percent of employees considered average performers (B players).[18] The GE staffing approach means that nearly all the talent management focus is on a very small percentage of employees with outstanding performance, but it fails to account for whether the position the employee fills is strategic or nonstrategic. Strategic positions are those in which the outputs from the job being performed directly impact the company's bottom line (e.g., senior vice president of manufacturing). In contrast, nonstrategic positions (e.g., head of public relations) are those that are important but that do not necessarily impact the company's overall performance. The difference is key, especially when a company is considering employing expatriate staff: on the one hand, A players will clearly contribute more toward organizational performance given their skills, qualifications, and high-performing competencies. On the other hand, strategic positions filled only with A player expatriates are going to be very costly. Additionally, not all strategic positions require A players; often, there is a marginal difference between A and B players such that some strategic positions could easily be filled with a smaller number of expatriate B players (e.g., middle managers tagged as "high potential").[19]

When employing expatriate talent, an important issue to consider is whether the potential expatriate is an A or a B player, and which is needed for a particular role. Given the costs involved with employing traditional AE-type expatriates (which is typically three to four times that of employing a host-country national), the difference to the bottom line could be substantial. For example, PCNs and TCNs have been traditionally thought of as A players, often being sent abroad by their company as a reward for their sustained high performance in the parent country of the organization. Although expensive, companies view PCNs and TCNs as less risky to deploy, given their deep organizational knowledge and strong loyalty, than, say, to employ localized expatriates (LOPATs) directly within the host location. LOPATs do not have prior organizational knowledge at the point of their employment and are thus considered B players (at least initially), being recruited directly from the local labor market in the host country in SIE-type expatriation. While LOPATS are substantially less expensive to employ than PCNs and TCNs, they can be viewed as riskier candidates from a retention standpoint, given their short tenure with the company and the SIE nature of their employment (i.e., being characterized as having low organizational commitment and low risk aversion to job changes). My point is that, when employing expatriates, it's important to consider whether an A or B player is required for the role: if much is riding on the long-term success of the position, then an A player expatriate (PCN, TCN) would be a sound choice. If the position is less strategic and requires only short-term deliverables, then a B player expatriate could be all that is required. The A player will be expensive, but success is usually guaranteed; whereas the B player will be less expensive overall.

3. Losing Expatriate Talent Can Be a Good Thing

Although this chapter is aimed at enhancing expatriate retention, it is a fact of life in business that employees leave. Understandably, talent retention is a major concern among senior executives, which has resulted in A players being constantly promoted, moved into new jobs, and extravagantly developed in an effort to keep them.[20] The fear is that top talent will inevitably enter the external labor market and join a competitor. These fears are not unfounded. In my own research, I found that 89 percent of expatriates (in a sample of 71) perceived career enhancement arising from their international assignment to be of benefit not only to their current employer but also to increase their marketability to *other* employers.[21] Expatriates' ability to increase external marketability appears to be a safety net that is used to ensure their "lifetime employability." Concurrently, studies have shown that career development for expatriates is, for the most part, ad hoc and reactive in which last-minute decisions and inadequate company support are commonplace, despite the fact that lack of career management support is one of three areas perceived by expatriates as constituting a breach in their psychological contract and resulting in their intention to leave.[22]

The above notwithstanding, the departure of top expatriate talent is not always the disaster it may at first seem to be. Obviously, expatriate talent that is identified simultaneously as difficult to replace while being highly poachable should be the target of an organization's most aggressive retention efforts.[23] The rest, however, should be allowed to leave with as much professionalism and as little fanfare as possible. Why? Because not all leaving employees join competitors; many, in fact, join what has been termed "co-operators"—companies that could represent potential clients, partners, or suppliers for the organization being left.[24] When expatriates join a co-operator firm, their departure needs to be handled in such a way as to retain their social capital ties to the leaving organization in terms of their goodwill toward former work colleagues. Maintaining relationships with A player expatriate talent that has left the company may result in other organizational gains.

The loss of expatriate talent presents other opportunities for companies. For instance, expatriates engaged in SIE-like mobility can benefit organizations as a potential future source of (less expensive) talent, thereby helping to address problems of international talent shortages.

The reality is that more expatriates are rejecting the "one assignment" concept of expatriation and instead adopting a "career approach," stringing together self-directed (re)assignments across multiple companies into meaningful sequences that meet their long-term personal and professional aspirations for building career capital. Career capital is important to expatriates, being defined as expatriates' energy, values, skills, and networks built up over their working lives, enabling them to acquire competencies that can be used within as well as across companies.[25] Research has shown that expatriates are pursuing global careers across national and organizational boundaries in different types of companies, including private, public, and nonprofit and domestic organizations, and are on the rise. Expatriates pursuing global careers, who can be recruited externally as LOPATs, represent a potentially critical component of a company's overall talent pool and talent management agenda. This more creative use of the external labor market can provide important staffing advantages, where "buying" talent can save time and be less expensive than "building" talent internally. This may be especially true for young opportunists and localized expatriate professionals (LOPATs) who may have previously been invisible and unrelated to an organization's international strategies (i.e., hidden from the talent management agenda). SIE-type employees could be a strategic benefit to organizations as an untapped talent pool of locally hired foreigners who are recruited and compensated differently (e.g., as PTs)—and less expensively—than PCNs and TCNs.

Conclusion: Attracting and Retaining Expatriate Talent

In this chapter, I have shown that there are eight types of expatriates who in one context or another make up many of the employees who engage with and within the international labor market as expatriates. The attraction and retention of these expatriates is aided by understanding the purposes for which they are used, the types of international assignments they are likely to undertake, and the types of expatriation they typically seek and engage in. Although many expatriates are more traditional PCNs, the wider context in which they work and pursue their careers is, in fact, the international labor market. It is here that the demand and supply of skilled labor circulates to enable foreigners to be employed around the world as companies seek competitive advantage through talent acquisition. There are many factors that drive employees onto the international labor market, including professional and personal aspirations, family and personal life, supply of and demand for one's occupation, politics, personal finances, and even their personality. For expatriates, the value gained by their participation in the international labor market is undeniable; international experience acquired through continuous global mobility can be a critical asset, and those with talent willing to move across geographical borders and to engage in labor market activities know that they are in demand. How, then, can a company attract and retain expatriate talent?

Expatriates can create both problems and solutions for companies. On the one hand, those engaged in SIE-type mobility are open to job changes, which can be problematic because they welcome the stimulation and challenge that expatriation facilitates and can be inherently less loyal to their employers as a result. Such openness to change enables them to engineer international work experiences for themselves, often without their company's help. Importantly, because they are open to job changes, they expect high outcomes from their efforts, and they are proactive in self-directing their careers to achieve their goals. Thus, they can be hard to retain. On the other hand, the pool of talent that the international labor market makes available to companies can help senior managers solve some potentially pressing global staffing problems. These include: (1) shortages of suitable candidates, (2) controlling the costs of global mobility, and (3) losing the knowledge and/or knowledge transfer because of problems with expatriate retention.

Savvy companies can address these challenges by employing certain types of expatriates according to the particular staffing challenge they are faced with, for example, local foreign hires when cost considerations are paramount (problem 2), EHCOs or FELOs when skilled talent is not available locally (problem 1), and LOPATs when knowledge transfer is needed over a longer period of time (problem 3). Furthermore, the value of the international labor market to companies rests not only in attracting, recruiting, and retaining typical talent (i.e., PCNs) but in understanding how to effectively use the various types of expatriates that constitute the full range of talent that is available to them. This requires considering the various types of expatriates that constitute the global talent pool (see Table 43.2) and their differences in career orientation (AE vs. SIE). It also requires that companies combine their internal and external labor markets (i.e., buying talent vs. developing talent) to fully meet their overall global talent management requirements. My point is that there will be implications for expatriate talent attraction and retention arising from differences in the types of expatriates who are employed and deployed, as well as their differing career orientations. The extent to which companies understand who they are employing, and why, will determine in large part the success of their global talent management agenda, including the issues and challenges related to the attraction and retention of expatriates who fall within that agenda.

Glossary of Terms

global staffing: The critical issues faced by MNCs with regard to the employment of home-, host-, and third-country nationals who are required to fill positions in their headquarters and subsidiary operations.

home country, parent country: Country of origin from where an expatriate has been recruited prior to undertaking an international assignment; the home country may or may not be the headquarters country of the organization, just as it may or may not be the country of citizenship of the expatriate.

host country: Country to which expatriates are temporarily assigned, but for which they usually do not have citizenship.

host-country nationals (HCNs): Mostly nonexpatriate employees residing in the host location as citizens of that country.

international assignment: The project or temporary role in another country to which an expatriate is dispatched by his or her employing organization in service of corporate goals, typically for a period of one to five years.

international labor market: Defined as the total global supply of the labor force (the number of people in a particular country or area who are able and willing to work) that interacts with the world of commercial activity ("capital flows") where goods and services are bought and sold; relies on an exchange of information between employers and job seekers about wage rates, conditions of employment, level of competition, and job location, and represents the "invisible" factors of production associated with human capital (people) that contribute to corporate and national performance. Companies and countries compete in the international labor market to attract the best and brightest "highly skilled labor" and "knowledge workers."

psychological contract: An indirect, unwritten, and often unspoken agreement between an employer and employee.

repatriation: The reintegration of expatriates into their original home operation from whence they undertook their (first or only) international assignment.

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Chapter 44

Developing Global Leadership Competencies

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WHAT MAKES GLOBAL LEADERS SUCCESSFUL? ARE THERE SOME CRITICAL COMPETENCIES on top of the basic or core leadership competencies they should or must have? In this chapter, we explore the competencies highlighted for global leaders in various research studies, five suggested competencies for global leaders to develop, and two leading multinational case examples in global leadership development.

The Rise of Global Leaders

Global is the new reality of how business will be conducted. The Global 500 list for 2016 has global corporations represented by a total of 33 countries. U.S. firms dominate, with 134 entries, followed by China with 103, and Japan with 52. The United Kingdom is home to 26 Fortune 500 companies, 17 of them based in London. The growth of Chinese business is the most striking feature of the 2016 Fortune Global 500 list, with more than 100 of the world's biggest companies now headquartered in China. While Walmart maintains its place at the top of the list, China power giant State Grid jumps from seventh place in 2016 to the number two spot in 2017. It is followed by oil giants China National Petroleum Corp and Sinopec Group, in third and fourth place, respectively. Europe's Royal Dutch Shell completes the top five.

With globalization becoming a fact of life, global leaders are needed to navigate an increasingly complex global marketplace which has often now been described by the acronym VUCA which stands for:

- *Volatile:* Any company certainly understands that the economic outlook and business demands change quickly; but those changes rarely happen in predictable or repeatable ways.
- *Uncertain:* Along with this volatility is a great deal of uncertainty. Organizations must recognize that disruptive change is the new normal. The past is unlikely to be an accurate predictor of the future.
- *Complex:* The global economy is characterized by great complexity, and companies are often met with challenging, hard-to-understand forces and mitigating factors.
- *Ambiguous:* Many companies find that the causes for why things happen are unclear, and as they extend their international reach, there is greater potential for misunderstanding and confusion.

Importantly, global leaders operating in a VUCA world will be dealing with accelerating change and disruption as the norm. Gans (2016) identifies two kinds of disruption: demand-side, when successful firms focus on their main customers and underestimate market entrants with innovations that target niche demands; and supply-side, when firms focused on developing existing competencies become incapable of developing new ones. More importantly, successful leaders need to lead their companies to become the disruptors rather than the disruptees and create a disruptive growth engine to do this (Christensen and Raynor, 2013).

As such, global leaders will require new global leadership competencies to succeed in this new normal VUCA world. We next look at some research on global leadership competencies.

Global Leadership Competencies Research Insights

Mendenhall and colleagues (2013) provide this definition of global leaders:

> Global leaders are individuals who effect significant positive change in organizations by building communities through the development of trust and the arrangement of organizational structures and processes in a context involving multiple cross-boundary stakeholders, multiple sources of external cross-boundary authority, and multiple cultures under conditions of temporal, geographical, and cultural complexity.

Meister and Willyerd (2010) highlighted five leadership areas that seem to be emerging for the leader of the future as shown in Table 44.1.

Leadership Capability	Leadership Behaviors
Collaborative mind set	• Inclusive decision making • Genuine solicitation of feedback
Developer of people	• Mentors and coaches team • Provides straight feedback
Digitally confident	• Uses technology to connect to customers and employees
Global citizen	• Has a diverse mind set • Prioritizes social responsibility
Anticipates and builds for the future	• Builds accountability across levels • Champions innovation

Table 44.1 The 2020 Leader

Source: Future Workplace

According to Meister and Willyerd "the process starts with selecting leaders who have demonstrated a collaborative mindset and who work comfortably in networked leadership. We focus on leaders who see the development of people as one of their most important goals, including providing honest feedback, career guidance, and learning opportunities. Third, the leader of the future will need to be digitally confident and able to speak the digital language of the newest generation of workers. The fourth facet of the 2020 leader is being a global citizen, in the broadest sense. This means being not only a leader who can work well across cultures but also one who understands the value of working with governments and nongovernmental organizations in the intertwined dependencies of the future. Finally, anticipating the future and building the capability to address it are the fifth capability area required for the 2020 leader."

In Bird's (2013) framework of nested global leadership competencies, Bird systematically evaluated the literature from the early 1990s and categorized over 160 competencies from over 20 studies and literature reviews, placing each competency into one of three broad categories. Bird further consolidated the semantic differences and arrived at 15 competencies—five within each category. Table 44.2 presents Bird's competencies placed within the following three categories: (1) competencies of business and organizational acumen, (2) competencies of managing people and relationships, and (3) competencies of managing self.

Business and Organizational Acumen	Managing People and Relationships	Managing Self
Vision and strategic thinking	Valuing people	Inquisitiveness
Leading change	Cross-cultural communication	Global mind set
Business savvy	Interpersonal skills	Flexibility
Organizational savvy	Team skills	Character
Managing communities	Empowering others	Resilience

Table 44.2 Categories and Competencies of Bird's (2013) Framework of Nested Global Leadership Competency Development

The Conference Board conducted research on “DNA of Leaders: Leadership Development Secrets” (2013) to define the characteristics—the DNA of successful leaders. The survey results showed that human capital executives ranked global thinking/mind set the most critical leadership attribute for their global leaders, followed by collaboration and integrity, which tied for second. Table 44.3 shows the top five rankings—the results of this survey.

Business-line executives (N = 92)	Rank	Human capital professionals (N = 19)	Rank
Integrity	1	Global thinking/mind set	1
Global thinking/mind set	2	Integrity	2 (T)
Leading change	3	Collaboration	2 (T)
Retaining and developing talent	4	Retaining and developing talent	4
Influence	5	Cultural sensitivity/empathy	5 (T)
Collaboration	6	Learning agility	5 (T)

Table 44.3 Top Five Critical Characteristics/Competencies of Global Leaders Ranking by Business-Line Executives and Human Capital Professionals

Source: The Conference Board

When business-line executives were asked to anticipate what global leaders will need five years from when they were asked, they wrote in the survey the following:

- “Have more global exposure in order to develop a truly ‘global mindset.’”
- “Be much more culturally aware and inclusive.”
- “Be more tech savvy.”
- “Be more comfortable making even faster decisions with less data.”
- “Be more agile and more adaptive (a ‘chameleon’).”

The Conference Board and Development Dimensions International (DDI) 2014–15 Global Leadership Forecast (GLF) identifies leadership challenges and opportunities. The GLF survey includes responses from 13,124 leaders, 1,528 global HR executives, and 2,031 organizations with representation from four leader levels, both genders, 48 countries across all regions, 32 major industry categories, and a mix of multinational and local corporations. The two leadership competencies highlighted as most critical to develop are (1) fostering employee creativity and innovation, and (2) leading across countries and cultures. The research also found that organizations that have been focusing on developing these skills, and whose leaders are now more effective, are three times more likely to rank in the top 20 percent for financial performance.

In “The Future China Business Leader,” research by The Conference Board (2014), the participants highlighted that China requires a new brand of Chinese business leadership—one that blends a more collaborative and adaptive global mind set with the very best of relevant local traditions, experience, and culture. The competencies identified are:

- Global mind set.
- Strategic thinker/forward-looking/problem solver.
- Effective communicator.
- Change leader/change influencer/change manager.
- Talent optimizer; focuses on talent nurturing and successor development.
- Able to value and manage diversity and multiple generations in the workforce.
- Able to delegate decision making down the chain; empower subordinates.
- Culturally aware/sensitive—connector of cultures.
- Ability to manage global virtual teams.
- Manage conflict/conflict resolver.
- Ability to influence (not command) and be influenced.
- Technology savvy, including social media.
- Good judgment.
- Deep understanding of the corporate culture (MNCs).
- Able to set a clear vision and inspire others—gives employees some space to innovate; tolerating risk and failure and fostering risk taking.

- Able to synthesize the flood of information to create business relevance.

The University of North Carolina Kenan-Flagler Business School and the Human Capital Institute (2015) conducted a study on how organizations develop global competence in their workforce and leaders with the proliferation of globalization. The top 10 rated competencies that are important for global leaders to work effectively in a global business environment are identified below:

1. Multicultural sensitivity and awareness (57 percent)
2. Ability to communicate effectively (49 percent)
3. Strategic thinking (47 percent)
4. Leadership and the ability to influence others (45 percent)
5. Respect for differences (44 percent)
6. Ethics and integrity (42 percent)
7. Flexibility and willingness to change (41 percent)
8. Adaptability in new environments (40 percent)
9. Collaborative (37 percent)
10. Decision-making ability (36 percent)

In the last few years, the influence and impact of digital technologies and big data have accelerated at a tremendous pace. According to McKinsey (2016), "digital globalization" is the new era of global flows. The world is more connected than ever, and the amount of cross-border bandwidth that is used has grown 45 times larger since 2005. It is projected to increase by an additional nine times over the next five years as flows of information, searches, communication, video, transactions, and intracompany traffic continue to surge. As such, companies have to rethink their organizational structures, products, assets, and competitors to compete in this digitally transformed environment. Therefore, we will need global leaders who can think and apply digital thinking in not only running their operation but in reinventing their business models.

The Five Key Global Leadership Competencies

From the above various research, certain global leadership competencies came up repeatedly. With that, the suggestion is to discuss the following five global leadership competencies that are especially important for global leaders to have on top of their core leadership competencies.

1. Digital Leadership

In *Leading Digital—Turning Technology into Business Transformation,* author Didier Bonnet (2014) explains that, in the course of conducting hundreds of interviews with organizations about their approach to digital, it became clear to him and coauthors George Westerman and Andrew McAfee that firms that struggle to become truly digital "fail to develop the leadership capabilities required to set and execute a digital vision."

In becoming a digital leader, three key capabilities to have or to develop are highlighted below (Ijcox, 2014):

a. *Comfortable with technology:* Executives need to become more engaged with technology. In a digital business all members of the senior team must be able to contribute to discussions about technology, and they must also understand and be able to articulate the importance of technology to the organization. This does not mean that they need to be deeply technical or understand how the technology works, but they do need to understand its capabilities and how it can be applied.
b. *Digitally aware:* Technology is key to digital business. But being comfortable talking about technology matters is just the starting point as there is also a lot more to being a digital business than technology. Digital is about transforming the entire organization. It is about creating new business models, products, and services; generating new revenue streams; creating customer values; and gaining marketplace success. And this may involve collaborating with other partners, suppliers, and even customers to create new offerings and generate value for all parties. Leaders who think that digital is just a technology project or is just about the organization's website or social media activity are not digitally aware and will not provide the direction required for a successful digital transformation.

   Executives who show little interest in digital products and services will have little credibility across the rest of the organization. They also need to understand what it takes to create and manage ongoing digital products and services that generate value for the business and the customer beyond the initial transaction. This is where the real customer experience and value lies. This involves taking the outside-in view of the business—looking at the business from the customer's perspective—and being prepared to reinvent what the company does and how it does it based on this view.

c. *Open to new ideas:* Leadership must be driven by an attitude of openness and a genuine hunger for knowledge. The leaders of a digital business need to be actively searching for and introducing new ideas and innovation. It does not matter where the ideas come from; staff members, partners, suppliers, and customers are all potential sources of new ideas and innovation.

   Organizations need their leaders to create the right environment and processes for ideas to be shared, debated, and acted upon. And they need to make sure that this happens quickly—digital markets are more dynamic than traditional markets, and they can be disrupted more easily.

   The digital leader must have the ability to identify technological trends across different sectors with digital technologies such as big data, cloud computing, automation, the Internet of things and robotics. They must possess sufficient knowledge and the vision to use these resources most effectively such as to enhance efficiencies, reduce costs, increase productivity, and deliver unparalleled customer value. The digital leader can adopt four digital disciplines according to Weinman (2015)—information excellence, solution leadership, collective intimacy, and accelerated innovation to attaining market leadership.

2. Cultural Intelligence

Understanding national cultures play an important role in business. According to the seminal work by Hofstede (1980), *culture* is defined as:

> "The collective programming of the mind, which distinguishes the members of one group or category of people from another."

Hofstede has identified six basic characteristics that distinguish national cultures. These dimensions are as follows:

a. *Individualism versus collectivism:*
   - Individualism measures the extent to which a culture expects people to take care of themselves and/or where individuals believe they are masters of their own destiny.
   - Collectivism measures the tendency of group members to focus on the common welfare and feel group loyalty.

b. *Masculinity versus femininity:*
   - Masculinity measures the degree to which the acquisition of money and things is valued and a high quality of life for others is not.
   - Femininity measures the tendency to be nurturing and people-oriented.

c. *Power distance index:*
   - This measures the degree to which influence and control are unequally distributed among individuals within a particular culture.

d. *Uncertainty avoidance index:*
   - This measures the degree to which individuals or societies attempt to avoid ambiguity, risk, and the uncertainty of the future.
   - It provides an understanding of the cultural values associated with attitudes toward differences.

e. *Long-term orientation versus short-term orientation:*
   - Long-term orientation measures the degree to which a culture emphasizes values associated with the future, such as thrift and persistence.
   - Short-term orientation measures the degree a culture emphasizes values that focus largely on the present.

f. *Indulgence versus restraint:*
   - Indulgence stands for a society that allows relatively free gratification of basic and natural human drives related to enjoying life and having fun.
   - Restraint stands for a society that suppresses gratification of needs and regulates it by means of strict social norms.

In today's interconnected and dynamic world, global leaders need to be able to quickly, comfortably, and effectively work in different countries with people from different cultures. They need cultural agility.

Leaders gain cultural agility when they have significant opportunities to collaborate with colleagues from different cultures, receive feedback on their effectiveness in diverse cultures, and understand the importance of the cultural context in being successful.

Here are five proven practices for developing culturally agile leaders (Caligiuri, 2012) in your organization:

a. *Discover your cultural agility baseline*. Offer an assessment (such as the Cultural Agility Self-Assessment) to determine the level at which to start building cultural agility. When the level of cross-cultural competencies is higher, leaders can dive into the deep end with an immersive international assignment. If cross-cultural competencies are lower, begin with a more manageable experience—but one that is still a cultural stretch.
b. *Encourage high-quality interactions among colleagues from diverse cultures*. Any cultural experience can be a developmental one if you promote certain behaviors. Encourage colleagues to make the most of their business trips by asking questions, forming or strengthening professional relationships in culturally appropriate ways, observing and reflecting on their observations, and asking for feedback.
c. *Determine how to learn about specific cultural differences.* There are over 190 countries in the world. A working knowledge of business issues in each country would be time-prohibitive for most business leaders. They need to learn how to source credible information about critical business issues in diverse countries. Encourage leaders to build a network of trusted colleagues in key markets around the world.
d. *Start an international corporate volunteer program*. Many organizations offer corporate-sponsored international volunteer programs that match highly skilled "on loan" business volunteers with non-government organization (NGO)-requested projects in developing countries. These volunteer assignments range from a few weeks to several months, and research has found that they are highly effective in building cultural agility. (The bonus is that they also help companies achieve their corporate social responsibility goals.)
e. *Use international assignments as developmental opportunities*. Among the experiential opportunities companies can offer, the international assignment is the most often used—and potentially the most developmental. Remember, though, for international assignments to be truly developmental they need to be immersive experiences. If safety is not a concern, you might want to avoid offering housing in expatriate neighborhoods or providing memberships in expatriate clubs. While comfortable, they limit development.

Whatever your firm's level and speed of global growth, the future will likely require your organization to have more global leaders. These proven practices can help your organization develop a robust pipeline of culturally agile global leaders.

3. Global Mind Set

As noted earlier, in The Conference Board, DNA of Leaders: Leadership Development Secrets report findings (Ray and Learmond, 2013), global thinking/mind set was the attribute selected by human capital executives as the most critical attribute for successful global leaders.

In 2004, the Najafi Global Mindset Institute at the Thunderbird School of Global Management conducted a research project to identify and define the essential attributes of successful global leaders. Nine key dimensions of global leadership were identified and grouped into three categories: global intellectual capital, global psychological capital, and global social capital (Javidan, 2013). Together, the dynamic interplay among cognitive, psychological, and behavioral attributes needed for global leadership constitutes a global mind set.

To develop a global mind set, dynamic learning is essential according to Javidan and Walker (2014) because each of the three kinds of capital within the global mind set is best developed through different methods and over varying lengths of time, as shown in Table 44.4.

Global mind set categories	Global intellectual capital (GIC)	Global psychological capital (GPC)	Global social capital (GSC)
Nine key dimensions	1. Global business savvy 2. Cosmopolitan outlook 3. Cognitive complexity	4. Passion for diversity 5. Quest for adventure 6. Self-assurance	7. Intercultural empathy 8. Interpersonal impact 9. Diplomacy
Dynamic learning methods suggestions	Enhanced largely through self-directed cognitive learning. It involves reading, watching, listening, analyzing, and problem solving.	Requires experience to tap into deep motivations and interests. Can be fostered through first-person experience combined with reflection on one's values, motivations, and confidence.	Depends on interactions with different kinds of people in order to practice and modify self behaviors. This may include mentorships, peer interactions, discussions, and job shadowing.

Table 44.4 Global Mind Set Categories, Dimensions, and Dynamic Learning Methods

In summary, global leaders who have a high level of global mind set tend to better understand the situations and individuals they are interacting with in a global environment. They demonstrate a passion for learning about multiple cultures and ideas. They are better able to identify and enact appropriate methods to influence stakeholders to work toward achieving the company's goals.

4. Collaborative Leadership

Business management gurus Ibarra and Hansen (2011) identify four necessary skills of collaborative leadership:

a. *Connect people and ideas outside the organization to those inside it.* Leaders should play the role of "global connector," piling up frequent-flier models to meet with employees, customers, thought leaders, and peers from other industries, and then share that wisdom with the organization. "To connect their organizations to the wider world, collaborative leaders develop contacts not only in the typical areas—local clubs, industry associations, and customer and supplier relations—but beyond them," write Ibarra and Hansen.
b. *Leverage diverse talent.* A continuing deluge of research is piling up that shows that teams with members from diverse backgrounds can act more intelligently than homogenous ones. But it takes special leadership talent to identify and then meld together a group with members of different races, genders, cultures, and ages.
c. *Model collaborative behavior at the top.* A culture of collaboration starts at the top. "Depoliticizing senior management so that executives are rewarded for collaborating rather than promoting their individual agendas is an absolute essential," according to the authors.
d. *Keep teams from becoming mired in debate.* The downside of a collaborative culture is a tendency toward too many meetings with too few decisions. One key is for leaders to assign clear decision rights and responsibilities "so that at the appropriate point someone can end the discussion and make a final call."

Linden (2010) highlighted five qualities of collaborative leaders that appear frequently, as listed below:

a. *Feel driven to achieve the goal through collaboration, with a measured ego*. That is, collaborative leaders are passionate about achieving their results with a compelling modesty (Collins, 2001).
b. *Listen carefully to understand others' perspective*. This is also a principle in Stephen Covey's (1989) *The 7 Habits of Highly Effective People* which states, "First seek to understand, then to be understood."
c. *Look for win-win solutions to meet shared interests.* Collaborative leaders have an attitude of abundance and look for synergies and different ways to get to win-win solutions.
d. *Use pull more than push.* "Push" is more about talking, telling, meeting my needs, and getting you to do what I want whereas "pull" is about listening, asking, inquiring, trying to meet all our needs, and creating conditions in which you and I want the same thing.
e. *Think strategically; connect the project to a larger purpose.* Collaborative leaders think several moves ahead with the ability to both anticipate and respond quickly to changes. At the same time, collaborative leaders are good at seeing the big picture—connecting the dots—thereby getting project team members to see their project work for the larger intended purpose.

Collaborative Intelligence: Thinking with People Who Think Differently is the work of Markova and McArthur (2015) that highlights collaborative intelligence, which is a measure of our ability to think with others on behalf of what matters to us all. In essence, the global leader needs to access this intelligence through four strategies—mind patterns, thinking talents, inquiry, and minds share, when facing our new world that comes with complex challenges.

5. Innovative Leadership

In The Conference Board's 2015 CEO Challenge Study (Mitchell, et al. 2015), 943 CEOs ranked "human capital" and "innovation" as their top two challenges to driving business growth. This highlights the importance for global leaders to be innovative. The study provided these five strategies for addressing the innovation challenge: (1) create culture of innovation by promoting and rewarding entrepreneurship and risk taking; (2) engage in strategic alliances with customers, suppliers, and/or other business partners; (3) find, engage, and incentivize key talent for innovation; (4) apply new technologies (product, process, information, etc.); and (5) adopt a user-centric approach to innovation.

To work on the suggested strategies above, it will be useful for innovative leaders to acquire the discovery skills as highlighted by Dyer and colleagues (2011) in "The Innovator's DNA." The authors studied behaviors of the world's best innovators—from leaders such as at Amazon and Apple to those at Google, Skype, and Virgin Group resulting in the authors highlighting five discovery skills that characterize innovative leaders: (1) associational thinking. This helps innovators discover new directions by making connections across seemingly unrelated questions, problems, or ideas. Innovative breakthroughs often happen at the intersection of diverse disciplines and fields. (2) Questioning. (3) Observing to gain insights into and ideas for new ways of doing things. (4) Networking. (5) Experimenting. Innovators are constantly trying out new experiences and piloting new ideas. Collectively, these discovery skills—the cognitive skill of associating and the behavioral skills of questioning, observing, networking, and experimenting—constitute what the innovator's DNA, should have or develop. It is the code for generating innovative business ideas which every global leader should possess.

In *Innovation Leaders: How Senior Executives Stimulate Steer and Sustain Innovation*, Deschamps (2008) highlighted these six attributes which innovation leaders generally share: (1) a mix of emotions and realism, having an unusual combination of creativity and process discipline; (2) the acceptance of uncertainty, risks and failures, coupled with an urge to make their staff learn from them; (3) a high degree of passion for their mission and for innovation, as well as the burning desire to share that passion with their staff; (4) the willingness to proactively search for external technologies and ideas, and then to experiment with them, (5) the courage to stop projects, not just start them, and the flair to decide when to persist versus when to pull the plug; (6) a talent for building and steering winning teams, and a knack for attracting and retaining innovators.

By developing the above skills and attributes, the global leader will not only be able to work on mainstream business but also create and lead new disruptive business models for the growth of the organization in this new VUCA world.

Global Leadership Development Cases

The Conference Board report on DNA of Leaders (Ray and Learmond, 2013) includes leadership development philosophies and programs of 17 leading organizations at Accenture, American Express, BASF SE, Cardinal Health, Caterpillar, Coca-Cola, General Mills, Hewlett Packard, IBM, Intel, L'Oreal, McDonald's, Procter & Gamble, Shell, Siemens, Unilever, and Wipro.

Table 44.5a and b captures some insights on highlighted leadership programs from three of these 17 organizations.

Business-line executives (N=92)	Rank
• Mentoring	1
• Action learning initiatives (business challenges, simulation)	2 (T)
• Rotational programs	2 (T)
• International assignments	2 (T)
• Executive coaching	5
• Informal coaching and feedback	6 (T)
• Participation in task force/special assignment	6 (T)
• 360-degree feedback	8
• Executive education/academic university programs	9 (T)
• Focused skill development	9 (T)
• Executive assessments	11
• Experiential learning programs	12 (T)
• Self-directed learning (e.g., eLearning)	12 (T)
• Nonacademic external training	14
• Formal internal training	15

Note: Respondents were requested to select their top three.

Table 44.5a Ranking of Which Leadership Development Experiences Do You Believe Have the Greatest Impact for Developing Leaders?

Source: The Conference Board

IBM	American Express	Coca-Cola
Attributes of a global leader:	Attributes of a global leader:	Attributes of a global leader:
– Global mind set is critical. – Able to lead in a social, world-conscious, and analytics-driven environment. – Able to foster collaboration within and between teams.	– Global perspective with ability to understand and integrate external trends into local strategies and goals. – A mind set focused on collaboration, learning, engaging, and empowering teams. – Ability to lead virtually in the global environment. – Able to collaborate across businesses.	– Flexibility and agility to quickly adapt to different markets and needs. – An activator in mobilizing various teams, cultures, and regions. – Able to strike a balance between having a global mind set and remaining locally relevant.
Highlighted program for global leaders:	Highlighted program for global leaders:	Highlighted program for global leaders:
IBM engages its leaders in various programs and leadership experiences to further enhance their global mind set and cultural diversity, including through the global enablement team (GET) program. The objectives of the GET program include deepening global mind sets, enabling competence in cultural adaptability, and better connecting local country teams with the global company agenda. This is consistent with IBM's philosophy of *leaders developing leaders, leaders developing themselves.*	American Express's accelerated leadership development program (ALD) is a unique program with sponsorship by the company's most senior executives, including the CEO and president. The program focuses on both group and individual learning covering topics such as: growth mind set, collaboration, and transformational leadership. Through this program, participants develop a strong network of peers across lines of business and geographies enabling greater collaboration throughout the company. Coaching and mentoring are also provided by senior leaders.	Coca-Cola's Don Keough leadership academy is a highly experiential program that consists of a deep dive into three key markets around the world (United States, Mexico, India). Participants learn about each unique market, core strategies, value chain from customers back through to the supply chain and other challenges leaders face in the markets and how they are being addressed. The program uses leaders as teachers with external experts in critical areas. It also mixes in-market experiences with formal teaching segments and coaching.

Table 44.5b Adapted from Source – DNA of Leaders

Conclusion

New global leadership competencies must now be added to core leadership competences in order for a leader to operate in the global and VUCA world of today. The global leadership competencies suggested and discussed are: Digital leadership, Cultural Intelligence, Global Mind Set, Collaborative Leadership, and Innovative Leadership.

In terms of global leadership development, from the 17-organization case study examples we can conclude that there is no one best model or one-size-fits-all model for global leadership development. However, these organizations exhibit these key common global leadership development practices: there is clarity in the kind of leaders they want to develop; the programs are values driven; senior leaders, including CEOs, gave their support and are actively involved; and the success and effectiveness of a leadership development program is increasingly measured based on its business linkage and impact.

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Part VI

Big Data

Chapter 45

Talent Development Reporting Principles (TDRp): Standards for the Measurement, Reporting, and Management of Human Capital

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Introduction

The world is changing, and the field of human resources (including learning and development) has not kept pace. Human capital is now the primary driver of value in most organizations, and yet the HR profession has had no standard principles, measures, or reports to manage its contribution.

An initiative was launched in 2010 to meet this need. Kent Barnett, at the time CEO of KnowledgeAdvisors, and Tamar Elkeles, at the time vice president of Learning and Communication at Qualcomm, pulled together a group of industry thought leaders and preeminent practitioners to create standards for learning and development (L&D). Over a two-year period this group of 31 leaders developed a set of standards not just for L&D but for all of HR. The standards include principles to be followed in planning, measuring, reporting, and executing HR initiatives. The standards also include a classification of HR measures into three types (effectiveness, efficiency, and outcome) and the creation of three reports to be used in the monthly management of HR initiatives and functions. In late 2012, the nonprofit Center for Talent Reporting (CTR) was created to be the permanent home for TDRp. Since then, hundreds of organizations around the world have adopted TDRp, and CTR has further refined the principles, measures, and reports based on feedback from the early adopters.

As a result of this initiative and the success of TDRp, HR now has a set of standards to manage the contribution of human capital. As a profession, we also now have a classification scheme for the hundreds of HR measures commonly used in the field, and we have standard reports—just as accountants do. Furthermore, building on the work of pioneering individuals like Jac Fitz-enz and Jeff Higgins, and pioneering organizations like the Association for Talent Development (ATD, formerly ASTD), we have a measures library with over 600 measures that practitioners can use as a resource and which, hopefully, in time will contribute to the standardization of names and definitions.

Adoption of TDRp will not only enhance the profession—it will directly benefit organizations and practitioners. *The primary benefit to an organization from adopting TDRp will be significantly greater impact on the organization's goals from its HR initiatives—with no increase in HR's budget. Implementing TDRp will result in better strategic alignment with the organization's goals, a stronger partnership with the goals' owners, and much better planning and execution of HR initiatives—all leading to a higher bottom-line impact at no additional cost. At the individual level, adopting TDRp will lead to a significant increase in business acumen; increased knowledge and skill about planning, measuring, reporting, and executing; and an enhanced ability to work successfully with senior leaders—all of which will improve your current job performance and make you a more attractive candidate for promotion.*

The focus of TDRp is on improving the management of human capital in order to deliver greater bottom-

The focus of TDRp is on improving the management of human capital in order to deliver greater bottom-line value to all organizations. The HR function in most organizations is not having the impact it should on the organization's success. While a classification scheme for measures and standard reporting formats are important for the profession (and will save practitioners considerable time in the future), the benefits to the organization and individual are much more direct and down to earth. Implementing TDRp will increase the bottom line in for-profit companies, increase the surplus for nonprofits, and help all types of organizations (profits, nonprofits, educational, government) better achieve their goals. While this may sound overly optimistic, the potential for improvement is tremendous.

To achieve this dramatic improvement in HR's impact requires new knowledge and skills on the part of HR leaders, which TDRp can help provide. It also requires their willingness to set specific, measurable goals, and then be held accountable for achieving those goals.

TDRp was originally developed just for L&D, but it quickly became apparent that the work would have to be extended to other HR processes as well so that organizations could implement it across their entire HR function. After a thorough review of the literature and in recognition of the need to provide clarity on processes versus outcomes, the group of industry leaders decided to develop measures and reports for the following six key primary human capital processes:

1. Learning and development
2. Leadership development
3. Performance management
4. Talent acquisition
5. Capability management
6. Total rewards

(It is understood that organizations may define the scope of these processes differently and may call them by different names, but these six are used to organize the measures and reports for the purpose of describing TDRp.) In the TDRp framework these processes are the primary drivers of organizational outcomes which may be financial and operational as well as talent-related. Eight supporting processes also were identified. Figure 45.1 illustrates the relationship among sample outcomes (each organization will have its own desired outcomes), the six key talent processes, and the eight supporting processes.

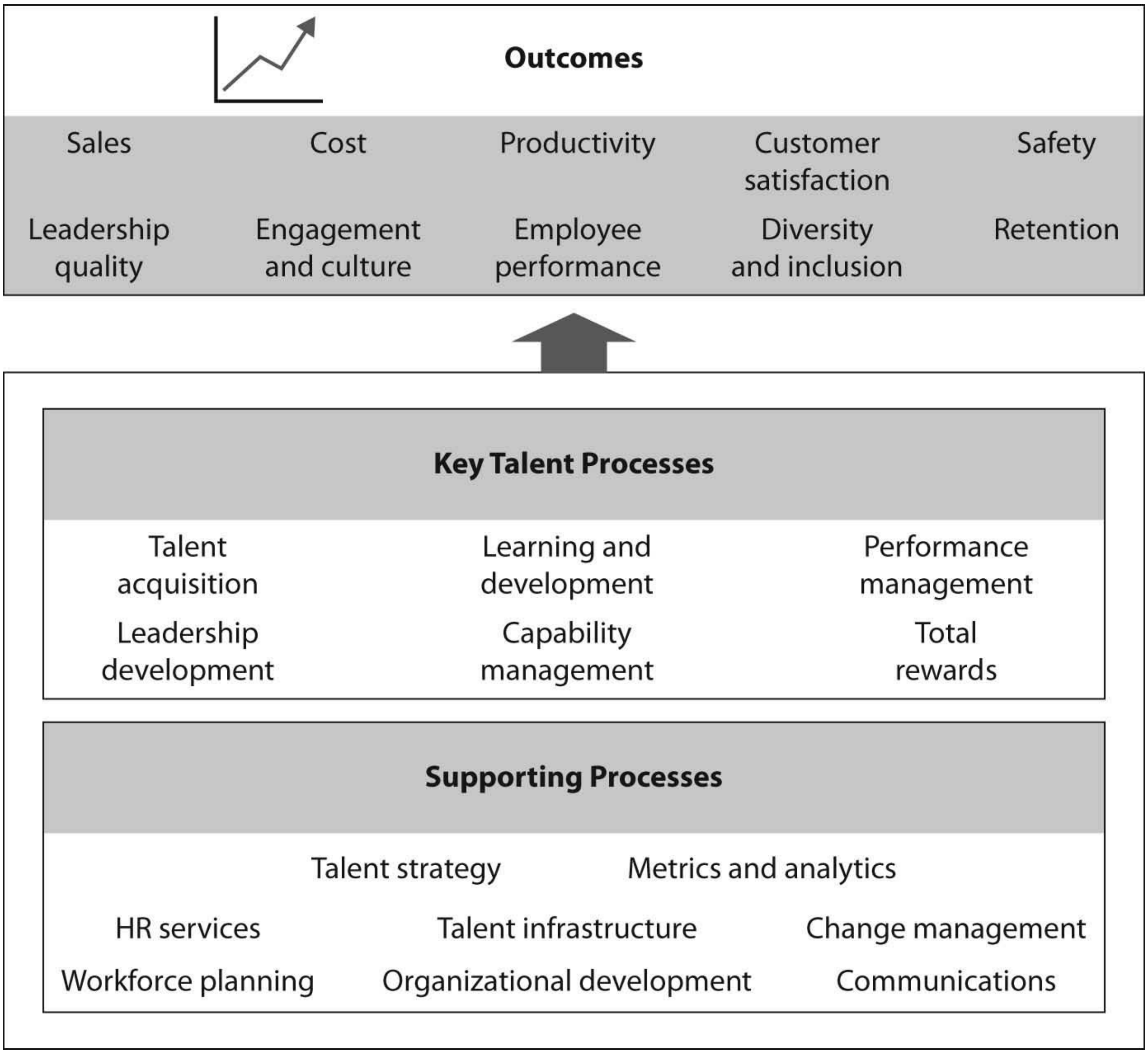

Figure 45.1 HR Processes and Outcomes

Leadership, engagement, employee performance, diversity, and retention (talent acquisition could also be added) are treated as outcomes rather than as processes thus implying that organizations with goals for these outcomes would plan programs and initiatives involving the six key talent processes to achieve the desired outcome.

The audience for this TDRp includes leaders and decision makers at all levels:

- Senior executives (CEOs, CFOs, COOs, line of business executives, SVP of HR)
- Talent executives (HR department heads and directors)
- Program managers who lead major talent initiatives

TDRp is designed on the premise that department heads must have reports to manage results with direct reports and staff on a monthly basis and that program managers must have reports on at least a monthly basis to manage ongoing initiatives.

Analysts are another important audience for TDRp. These professionals are the ones who manage the data, create the reports, and perform all the required internal analyses. TDRp is designed to provide all the definitions and guidance required as well as the underlying principles. Two other important audiences are consultants and vendors who will assist organizations implementing TDRp and who will develop software to generate TDRp-compliant statements and reports.

Running HR with Business Discipline

Running HR with business discipline is the key to understanding both the TDRp approach and the dramatic impact this initiative can have on an organization's success. The TDRp framework and reports that follow will not make sense without it.

Business discipline means applying standard management principles to HR. These principles are:

1. Set specific, measurable goals (plans).
2. Manage throughout the year to deliver what you promised. If you are not on plan, or if it appears you may not end the year on plan, then:
    a. Understand why.
    b. Identify corrective action.
    c. Decide if the corrective action is worth taking.
    d. Implement corrective action if justified and feasible.

Managers need to set goals and then come as close as they can to achieving them. Managers will need regular reports (at least monthly) to know how they are doing. These reports will have to show the plan for the year, year-to-date (YTD) results, and ideally a forecast of how the year is likely to end if special action is not taken. A manager will start by comparing YTD results with the plan. If the year is progressing according to or better than plan, great! If the year is not progressing according to plan, then the manager will need to understand why, what can be done, and how much it will cost to get back on plan. The manager must then decide to take corrective action or not. Even if the year-to-date progress is on plan, it is possible that something is now expected to happen during the rest of the year that will prevent the plan from being achieved. Next the manager will compare forecast to plan and YTD results. If the forecast shows that the plan is not likely to be achieved, then the manager will want to know why, what can be done, and what it will cost to do it. The manager must then decide whether to take corrective action.

Establishing good plans and managing to achieve them is what managers get paid to do. In practice both parts can be challenging. The good news is that it gets easier with practice. The bad news is that many HR managers have never been asked to either create a plan with specific, measurable goals, or to manage it. They are not used to being held accountable for delivering a plan.

Now let's apply these management principles to HR. First, we need to appreciate why HR exists and the contribution it can make to an organization's success. Traditionally, HR performed transactional functions like payroll and compliance and also provided guidance to the rest of the organization to keep it out of trouble. Today, however, in most organizations HR also plays a very exciting strategic role in helping the organization achieve its goals. Since human capital is now often an organization's most important asset, HR can devise initiatives and programs to help increase sales and reduce operating costs, improve quality, improve employee retention and engagement, and improve leadership. All of these initiatives, either directly (through efforts to increase sales, quality, or reduce costs) or indirectly (through better leaders or more engaged employees who in turn help achieve the other goals), will contribute to the organization's success.

Consequently, HR first needs to align its strategic initiatives with organization goals. This process starts by talking to the CEO to learn next year's goals and priorities. Then HR leaders need to talk with the owners (sponsors) of these goals and determine if some HR initiative(s) can help achieve their goal. If they can, then the parties need to work out the details of the initiative, including some measure of success for the initiative that both will commit to try to achieve. In this case, HR leaders don't set the organization goals—they align their initiatives to the goals of the organization. They do set a plan or target for the measure of success that they (HR) and the goal owner believe can be achieved by the HR initiative.

In addition to helping the organization achieve its goals, each department head (the head of HR in a smaller organization or the heads of separate departments like L&D in larger organizations) should set specific, measurable goals. Examples might be to improve the quality of new hires by four points, provide training to 90 percent of the organization's employees, improve the participant satisfaction with training by three points, or reduce the ratio of classroom training to e-learning by 10 percent. These goals will reflect what the department believes is most important to accomplish in the coming year.

At this point, HR leaders would have identified measures of importance for the coming year and established plans for each important measure. Once the year is underway, HR leaders will need regular reports to know how they are doing. Each report will need to include the plan, YTD results, and the forecast for each measure to be managed—just as in our discussion above. TDRp is designed to facilitate the plan setting and produce the reports needed throughout the year.

TDRp Framework

With the above background on running HR with business discipline, let's turn our attention to the TDRp framework.

The TDRp framework contains four elements:

1. Assumptions
2. Guiding principles
3. Three types of measures
4. Three reports

Figure 45.2 illustrates the interplay between these four components. The focus here is on executive or high-level reporting, meaning the reports that will be used by talent executives (department heads and directors) and program managers to actively manage their initiatives on a monthly basis. The measures in these executive reports must all have a plan, and once the year is underway, the reports will also show YTD results and the forecast for each measure. In contrast, detailed reports may also be generated which contain less important measures. These reports typically include just the actual results for measures (no plan or forecast) and much more granularity or greater reporting frequency (weekly or monthly versus year-to-date or annual) than executive reports. Detailed reports are meant to supplement executive reports and are especially helpful in discerning trends and answering questions.

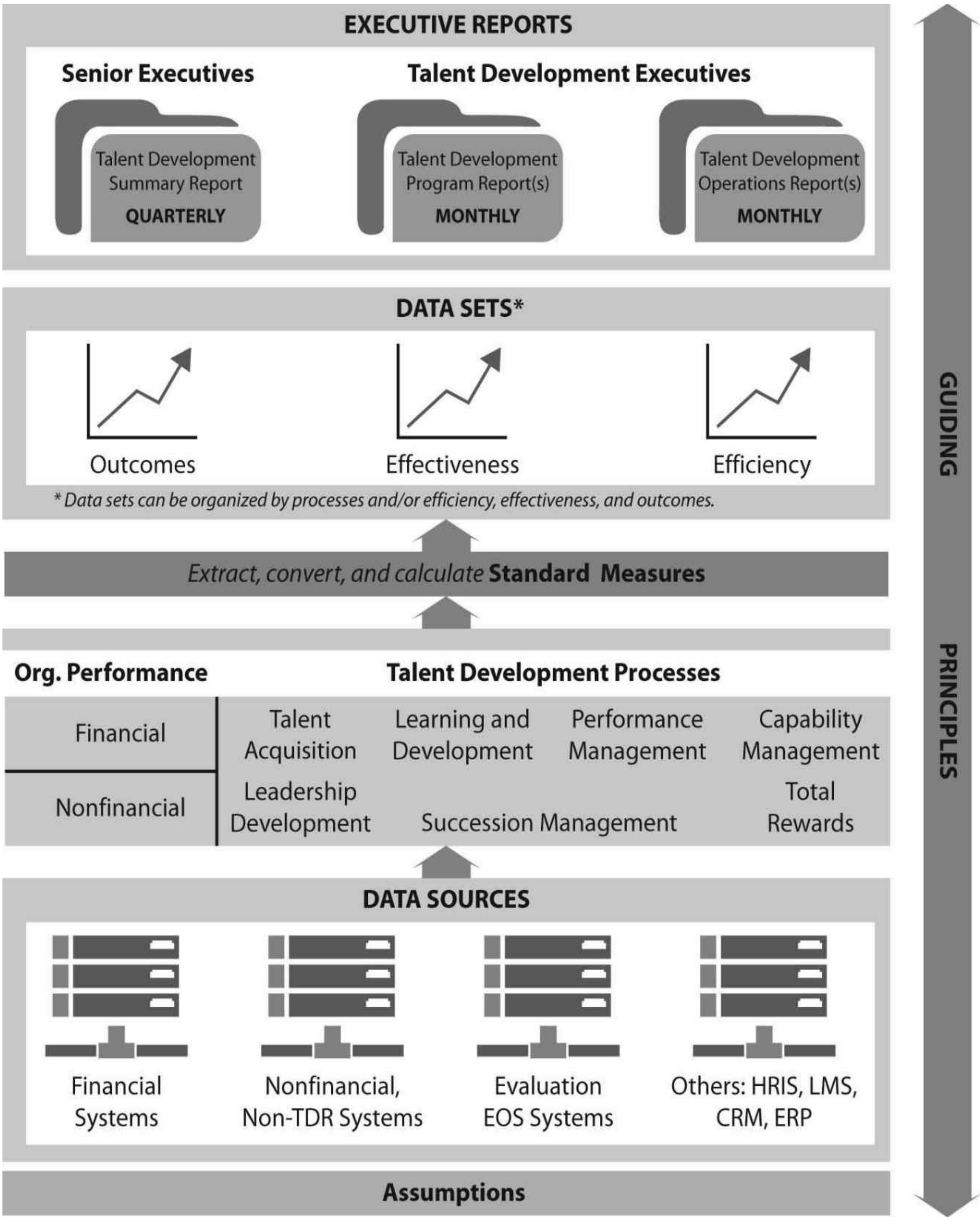

Figure 45.2 Executive Reporting Process

In brief, TDRp classifies human capital measures into three types: outcomes, effectiveness, and efficiency. These measures are then organized into three standard reports (summary, operations, program) that enable active management of human capital initiatives. TDRp also provides names and definitions for more than 600 measures.

The summary report contains key measures (all three types) and is designed for overall management of a department and for sharing with senior organization leaders. The program report enables department heads and program managers to ensure that the planned results are delivered for a specific program or initiative. Finally, the operations report focuses on the management of the key effectiveness and efficiency measures at the department level.

TDRp provides a simple, yet comprehensive framework with three types of measures organized into three reports with a focus on actively managing the investment in human capital to produce results.

1. Assumptions

Four important assumptions underlie the TDRp framework and reflect the application of management principles to HR. Understanding these assumptions upfront should reduce potential misunderstandings and provide context for the other elements. The first assumption clearly states the strategic role of HR, while the second addresses the need for strategic alignment. The third addresses planning in an uncertain world, while the fourth acknowledges the role of competent managers.

1. The primary purpose of human capital initiatives and processes is to build organizational capability that enables the organization to achieve its goals or achieve its goals more quickly or at lower cost.
2. Whenever possible, human capital initiatives and processes should be aligned strategically with the goals of the organization. HR leaders will meet proactively with stakeholders to discuss and agree on the role of initiatives and processes in meeting the organization's goals and will establish appropriate goals for the initiative or process. It is understood that goal setting will involve uncertainty and will entail the use of estimates and forecasts.
3. It is understood that the business environment is characterized by significant uncertainty, and yet plans must be made with the best information available. Waiting for absolute certainty and perfection is not an option.
4. The recommended reports and the underlying data will be used appropriately by competent, experienced leaders to manage the function to meet agreed-upon goals and to continuously improve.

2. Guiding Principles

Guiding principles provide direction for the standards, reports, and analysis just as GAAP (generally accepted accounting principles) and IFRS (international financial reporting standards) provide direction for accounting concepts, statements, analysis, and reports.

There are eight guiding and generally accepted reporting principles for executive-level reporting.

1. Executive reporting should employ concise and balanced measures that are reported in a consistent and clearly defined format:
   a. Key effectiveness, efficiency, and outcome measures should be reported and tracked on a regular basis.
   b. Plans should be set for key outcome, effectiveness, and efficiency measures. Results achieved in accordance with a performance plan should be tracked and reported.
   c. Executive reports should include, at a minimum, results for last year, current year plan, current year-to-date (YTD) results, and a forecast for the current year. Detailed reports typically include just the results that may be daily, weekly, monthly, quarterly, or yearly.
2. Executive reports should be produced and communicated with frequency and thoroughness to enable appropriate management of the function.
3. Executive reporting should include actionable recommendations.
4. Data integrity and completeness should be maintained.
5. Appropriate analytical methods should be employed.
6. The impact and value or benefit of initiatives and processes should be identified whenever appropriate, preferably by the stakeholder at the outset of the initiative.
7. The full costs of human capital initiatives and processes should be captured and reported whenever possible.
8. Executive reporting and the underlying databases should support continuous improvement of talent processes and programs.

This guidance not only influences the format of the reports but, in combination with the assumptions of strategic alignment and proactive sponsor discussion, it offers critical management guidance for all HR leaders to follow in terms of setting plans, tracking YTD progress, and forecasting how the year is expected to end.

These eight principles, combined with the four assumptions above, provide the foundation for TDRp.

3. Three Types of Measures

The third element of TDRp is the use of standard measures that provide consistency in application and calculation. TDRp defines three types of measures: outcomes, effectiveness, and efficiency. Every organization should collect and report all three types of measures although the choice of specific measures will depend on the goals of the organization and the department:

- *Outcomes measures* identify an organization's desired results and the impact of human capital initiatives and processes on those results. Examples of outcome measures include revenue, market share, quality, and cost reduction as well as talent-oriented outcomes like engagement, leadership, retention, and talent attraction.
- *Effectiveness measures* provide indicators of quality or how well human capital contributes to organizational outcomes. Examples of effectiveness measures include quality of content and delivery, application to job, impact, and value for L&D; quality of hire index, and first-year separation rate for talent acquisition; percentage of defined positions with an identified successor for leadership development; and employee bench strength for capability management.
- *Efficiency measures* provide indicators of an organization's level of activity and investment in human capital. Examples of efficiency measures include the number of participants, courses and hours for L&D; recruitment rate and cost-per-hire for talent acquisition; span of control and management tenure for leadership development; and average number of months to promotion for capability management.

The measures will be extracted and/or calculated from various data sources within an organization and then housed in a data set or warehouse.

It is important to have a balanced set of measures to obtain a holistic view of performance and to reduce the probability of unintended consequences. For example, if a department were to focus just on efficiency measures (like number of participants or activity levels), this may cause employees to decide to forgo quality in an effort to achieve the efficiency goal. So outcome measures are necessary to ensure focus on the right organizational goals; effectiveness measures are necessary to ensure attention to quality; and efficiency measures are necessary to ensure that the required level of activity, participation, reach, or investment occurs.

4. Three Executive Reports

The fourth element of TDRp is the creation and use of three executive reports for the active management of human capital initiatives to deliver planned results. The three executive reports include one targeted for use with senior executives (CEOs, senior vice presidents, etc.), two targeted for use with talent executives (department heads and directors), and program managers (those with specific responsibility for programs, budget, and people). Each report, its purpose, target audience, and frequency, is depicted in Table 45.1.

Report	Purpose	Target Audience Frequency
Summary report	Convey progress against high-level organizational goals	• Senior executives and talent executives • Quarterly
Program report	Manage programs and initiatives to deliver planned results	• Talent executives and program managers • Monthly
Operations report	Manage operations effectively and efficiently	• Talent executives and program managers • Monthly

Table 45.1 Three Executive Reports

The summary report serves as a stand-alone report for the senior executives, while the talent executive is expected to use all three reports to manage the function. Program managers will use the program report to manage a specific program, initiative, or process.

These three executive or high-level reports focus on the most important measures at an aggregate level. Where greater detail is required to answer questions that are triggered by the reports, detailed reports or underlying databases will provide the data to answer those questions. The three executive reports combined with the detailed reports and underlying data sets should provide comprehensive reporting on the effectiveness, efficiency, and organizational impact of the human capital programs.

All three executive reports should include the following for each measure:

- Last year's results (when available)
- Current year plan
- Year-to-date results

- Forecast for the current year
- Comparison of current YTD results with plan and forecast with plan

This constitutes the minimum recommended for executive reporting with the understanding that organizations will add measures of relevance where applicable. Detailed reports may focus on just actual results (no plan, forecasts, or comparison with plan) and provide higher-frequency data. In addition, some may choose to display data visually in a dashboard and provide analytical commentary. It is recommended that a quarterly summary report be generated with data, visuals, and analysis to enforce a discipline similar to that of financial reporting.

Of course, the key to successful management of the HR function lies not just in the reports themselves but in the analysis and actionable recommendations that flow from the reports. Consequently, the guiding principles include recommendations on reporting; further guidance is available on using the reports as well as on constructing them.

Summary Report

The summary report should contain the most important outcome, effectiveness, and efficiency measures. The report should be concise and limited to one (or at most one and a half pages) with supporting materials available as appropriate. No HR jargon should be used since the primary target audience is senior executives. The report should be interpreted for the audience either in a face-to-face presentation or in writing with a focus on summary conclusions and actionable recommendations.

Because the summary report contains all three types of measures, it must be read holistically to obtain an accurate picture of progress in relation to plans. In practice, it will often be impossible to achieve all the stated plans as the year progresses. This will require that tradeoffs be made among goals. Moreover, changes in the external environment (economy, market, competition) or internal environment (company goals and priorities or human capital resources) may impact the achievement of the plan.

A best practice is to share a draft of the summary report with the CEO and other senior leaders at the beginning of the year to solicit their input on the chosen measures. They are the primary target audience for this report so it is important to ensure that the report meets their needs. Typically, they will ask for additional measures to be added or indicate that some may be removed. In either case, the report now becomes “their” report and will facilitate much better discussion when used to review quarterly progress against the plan.

A sample summary report for L&D is provided in Figure 45.3.

			For 2016						
Priority	Organization Goals and L&D Outcome Measures	Unit of Measure	2015 Actual	Plan	Jun YTD	YTD Compared to Plan	Forecast	Forecast Compared to Plan
1	**Revenue: Increase Sales by 20%**							
	Corporate Goal or Actual	%	10%	20%	20%	100%	25%	125%
	Impact of L&D Initiatives: 25% Contribution to Goal	%	1%	5%		On plan		Above plan
2	**Engagement: Increase Engagement Score by 3 Points to 69.4%**							
	Corporate Goal or Actual	Points	1 pt	3 pts	1.9 pts	63%	3 pts	100%
	Impact of L&D Initiatives: Low Impact on Goal	H/M/L	Low	Low		On plan		On plan
3	**Safety: Reduce Injuries by 20%**							
	Corporate Goal or Actual	%	10%	20%	15%	75%	20%	100%
	Impact of L&D Initiatives: High Impact on Goal	%	Medium	High		Below plan		On plan
4	**Costs: Reduce Operating Expenses by 15%**							
	Corporate Goal or Actual	%	5%	15%	2%	13%	10%	67%
	Impact of L&D Initiatives: Medium Impact on Goal	H/M/L	Low	Medium		Below plan		Below plan
5	**Retention: Improve Retention of Top Performers by 5 Points to 90%**							
	Corporate Goal or Actual	Points	–3 pts	5 pts	2 pts	67%	5 pts	100%
	Impact of L&D Initiatives: None Planned	NA						
6	**Quality: Improve Quality Score by 4 Points to 80%**							
	Corporate Goal or Actual	Points	1.6 pts	4 pts	2.9 pts	73%	3.5 pts	100%
	Proxy for impact: Application of Key Behaviors	% who applied them	84%	95%	80%	15% below	90%	5% below

Figure 45.3 Sample Summary Report for L&D (continued on next page)

				For 2016				
Priority	Organization Goals and L&D Outcome Measures	Unit of Measure	2015 Actual	Plan	Jun YTD	YTD Compared to Plan	Forecast	Forecast Compared to Plan
	Effectiveness Measures							
	Participant Feedback	% favorable	74%	80%	77%	3% below	78%	2% below
	Sponsor Feedback	% favorable	66%	80%	68%	12% below	75%	5% below
	Learning	Score	78%	85%	83%	2% below	85%	on plan
	Application Rate	% who applied it	51%	65%	55%	10% below	63%	2% below
	Efficiency Measures							
	Percentage of Employees Reached by L&D	%	85%	88%	72%	16% below	88%	on plan
	Percentage of Employee's with Development Plan	%	82%	85%	84%	1% below	90%	5% above
	Percentage of Courses Developed on Time	%	73%	92%	67%	15% below	78%	14% below
	Participants in All Programs							
	Total Participants	Number	109,618	147,500	67,357	46%	145,000	98%
	Unique Participants	Number	40,729	45,300	36,998	82%	44,000	97%

Figure 45.3 Sample Summary Report for L&D (continued)

Notice first that the summary report is a "business-centric" report meaning that it shows information as a senior business executive would like to see it. Reading from left to right, the report begins with the goals of the organization in priority order. The goals and the priority come from the CEO or most senior leaders for the organization HR is supporting. The priority may be designated as high, medium, or low instead of rank ordered, but goals are seldom of equal priority. Continuing from left to right the next column shows the unit of measure, last year's actual results, plan for this year, year-to-date (YTD) results, YTD results as a percentage of plan, the current forecast for how the year is expected to end if no special action is taken, and last, the forecast as a percentage of plan. These columns are typical of a standard internal report used in any organization. (Actually, many organizations would have additional columns showing plan and results by month and/or quarter as well.)

Reading from top to bottom, the report focuses first on the outcome measures (organization goals and HR's impact on them) and then on select effectiveness and efficiency measures at the bottom. Outcome measures come first because this is what senior leaders care most about. Following the discipline of running HR like a business discussed above, talent executives will have met with the CEO to learn the goals and priority for the new year and then will have met with the owners of those goals to discuss whether and how HR can help them achieve their goals. If both the goal owner and the talent executive agreed that HR could help achieve the goal, then they worked out the details of the initiative. They also reached agreement on a measure of success and a reasonable plan for that measuring. (Remember, there are no guarantees in the real world. A plan is just that, a plan, which may or may not be achieved.) These measures and the plans for each are shown underneath each corporate goal in the summary report.

For example, in Figure 45.3 the first goal is to increase sales by 20 percent (came from the CEO and senior vice president of sales). Since this is an example for L&D, the VP of L&D, along with the program manager, would have met with the SVP of sales. They would have agreed that training could help achieve the goal and agreed on specifics like offering consultative selling skills and product features training to the 200-person sales force over the first two months of the year. Then they would have discussed how success could be measured. In this example, they agreed to use the direct impact of the training on sales as the outcome measure, and they further agreed that it would be reasonable to plan on a 25 percent contribution from training toward the goal of increasing sales by 20 percent. In other words, the two training programs, properly designed, delivered, and *reinforced*, are expected to lead to a 5 percent increase in sales (25 percent – 20 percent = 5 percent increase in sales as a result of the training). Now, is there any guarantee that sales will increase by 5 percent because of the training? Of course not. There is also no guarantee that the company will achieve any of its goals like the 20 percent increase in sales. Both the 5 percent and the 20 percent are simply plans that are believed to be reasonable and achievable if all goes well.

The next goal in Figure 45.3 is to increase the employee engagement score by three points. This is an example of a "softer" goal (which is also an HR goal), but many organizations have goals for improving engagement, leadership, diversity, or retention. In this case the owner of the goal is likely to be the SVP of HR so the head of L&D would meet with the SVP of HR to discuss the impact of L&D initiatives on increasing employee engagement. In this example, they agreed to use impact on the goal as the outcome measure but felt more comfortable using high, medium, or low rather than assigning a percentage contribution. Further, they agreed that while the L&D initiatives would have some impact on the goal, it would not be much and consequently agreed on a plan of low impact.

This summary report is typical in that many organizations use a mix of quantitative (using a number) or qualitative (using adjectives) outcome measures for impact. In some cases, the agreed-upon measure of success is not impact on the goal, but a proxy for impact or some other measure altogether. In this example, a proxy is used for goal 6: improve the quality score by four points. The head of quality and the head of L&D agreed to use the application rate of the training (easier to measure) as a proxy for the actual impact of the training (harder to measure). Next they agreed on a plan to get 95 percent of those who take the training to apply the three key behaviors within the first 90 days.

At the bottom of the summary report, four effectiveness and four efficiency measures are reported to let the senior executives know that L&D is interested not only in doing the right learning but doing it effectively and efficiently. In practice, a draft summary report is shared with the senior executives at the beginning of the year to reach agreement on the effectiveness and efficiency measures of most interest to them.

To recap, the summary report is a business-centric report that focuses first on the organization's goals and HR's impact on those goals (outcome measures), and then on the most important effectiveness and efficiency measures. The goals and priorities come from the CEO. Plans for those goals come from the CEO or the owners of the goals. Owners of the goals and talent executives agree on measures of success, plans for those measures, and roles and responsibilities to achieve those plans. The summary report lets senior executives know that:

- HR knows the organization's goals and priorities for the year.

- HR leaders have met with the goals' owners and the two have agreed on whether HR can help achieve the goals.
- If HR does have a role to play, the two have agreed on a measure of success and a plan for that measure.
- HR leaders will manage the initiatives just like managers in other functions reporting regularly on progress against plan.
- HR leaders are willing to be held accountable for results.

For senior executives, the summary report is the most important of the three and really the only one most will care to see. The talent executive can use the summary report in monthly meetings with the senior leadership team, in all employee meetings, and in presentations to other departments.

Operations Report

The operations report includes all the effectiveness and efficiency measures selected for management (versus monitoring) throughout the year. These will be the most important effectiveness and efficiency measures, reflecting the goals of the department head and senior leadership team. Typically, the report will contain 5–10 effectiveness measures and 5–10 efficiency measures. Some may contain up to 30 in total, but any higher number will prove very difficult to manage. The selected measures will be managed on a monthly basis to achieve the plan. Measures in the operations report will cover the total enterprise or as much of it as the HR group supports. (In other words, the data in the report will represent totals or averages across the reach of the HR group.) Unlike the summary report, HR jargon may be used in the operations report since the audience is purely HR.

A sample operations report for L&D is shown in Figure 45.4.

		For 2016					
	Unit of Measure	2015 Actual	Plan	Jun YTD	Comparison to Plan	Forecast	Comparison to Plan
Effectiveness Measures							
Level 1: Participant feedback (All programs)							
Quality of content	% favorable	76%	80%	79%	1% below	79%	1% below
Quality of instructor	% favorable	80%	85%	86%	1% above	85%	on plan
Relevance	% favorable	72%	78%	73%	5% below	75%	3% below
Alignment to goals	% favorable	68%	75%	69%	6% below	71%	4% below
Total for Level 1	Average of measures	74%	80%	77%	3% below	78%	2% below
Level 1: Sponsor feedback (select programs)	% favorable	66%	80%	68%	12% below	75%	5% below
Level 2: Learning (select programs)	Score	78%	85%	83%	2% below	85%	on plan
Level 3: Application rate (select programs)							
Intent to apply (from survey at end of course)	% top two boxes	70%	75%	70%	5% below	72%	3% below
Actual application (after three months)	% who applied it	51%	65%	55%	10% below	63%	2% below
Efficiency Measures							
Total participants	Number	109,618	147,500	67,357	46%	145,000	98%
Total unique participants	Number	40,729	45,313	36,998	82%	44,000	97%
Courses taken by type of learning							
ILT only	% of total	56%	25%	40%	15% below	33%	8% below
vILT only	% of total	3%	12%	9%	3% below	10%	2% below
E-learning only	% of total	35%	48%	39%	9% below	42%	6% below
Blended only	% of total	6%	15%	12%	3% below	15%	on plan
Total courses	**% of total**	**100%**	**100%**	**100%**		**100%**	

Figure 45.4 Sample Operations Report for L&D **(continued on next page)**

			For 2016				
	Unit of Measure	2015 Actual	Plan	Jun YTD	Comparison to Plan	Forecast	Comparison to Plan
Utilization of E-learning Courses							
Available	Number	60	74	65	88%	70	95%
Taken by more than 20	Number	50	70	19	27%	55	79%
% taken by more than 20	%	83%	95%	29%	66% below	79%	16% below
Reach							
% of employees reached by L&D	%	85%	88%	72%	16% below	88%	on plan
% of employees with development plans	%	82%	85%	84%	1% below	90%	5% above
Course management							
Total developed	Number	22	36	18	50%	36	100%
Number meeting deadline	Number	16	33	12	36%	28	85%
% Meeting deadline	%	73%	92%	67%	25% below	78%	14% below
Total delivered	Number	143	178	99	56%	180	101%
Investment							
L&D expenditure	Million $	$15.8	$20.2	$12.0	59%	$20.2	100%
Cost reduction (internal to L&D)	Thousand $	$63	$295	$115	39%	$230	78%

Figure 45.4 Sample Operations Report for L&D (continued)

In this example, the VP of L&D and senior L&D leaders have chosen to focus on three effectiveness measures: participant and sponsor feedback, learning score, and the application rate for the learning. The first and third have subcategories of measures that provide more detail (in the case of the first measure) or show different methods of measurement (in the case of the third measure). After reviewing last year's results and monthly trends, comparing their company's results to others, and considering the opportunities and resources for improvement, the L&D leadership team agreed on plans to improve each measure. The team believes that the overall level 1 score for participants can be improved from 74 percent favorable last year to 80 percent favorable this year with sponsor feedback improving from 66 percent to 80 percent favorable. Likewise the team believes that the learning score can be improved from 78 percent to 85 percent and the actual application rate from 51 percent to 65 percent. The team has identified action items to achieve these improvements and assigned responsibilities.

Similarly, the team has chosen seven broad efficiency measures with most having subcategories resulting in about 20 unique measures in total. Given the relatively small number of effectiveness measures, the combined number of measures is still manageable. After reviewing the history, benchmarking, opportunities, and resources, the team agreed to the plans in the report. The team plans on more unique participants and significantly more total participants, implying a large increase in the average number of courses taken by each employee. The team is also focused on increasing the amount of e-learning and decreasing the amount of classroom learning. Related to these first two measures, the team is looking to increase the utilization rate for e-learning and reach a higher percentage of employees. It has also identified opportunities for better course management (perhaps due to complaints last year about missing deadlines). Just as with the effectiveness measures, the team would have action plans in place to achieve these plans.

The operations report will be used by the talent executive each month in a meeting with his or her direct reports to review progress in relation to the plan and decide on corrective action if it appears the plan may not be achieved.

Program Report

The program or initiative report pulls together all the key measures related to the programs or initiatives in support of achieving an organizational goal. Unlike the summary and operations reports, which focus on enterprise-wide data, the program report focuses just on data for the program(s) in support of a single goal. The program report will include the goal supported by the programs, the outcome measure agreed upon by the goal's owner and the talent executives, and the effectiveness and efficiency measures related to achieving the goal. The goal and the outcome measure will be the same as in the summary report if the goal is important enough to be included in the summary report. The effectiveness and efficiency measures and their plans will typically be chosen by the program manager and approved by the department head, although the goal owner or staff in the goal owner's function may also help select the measures and set the plans. The program report should be one page in a type font that is easy to read. A program report would typically be created for programs in support of each of the CEO's high-priority goals. A sample program report for L&D is shown in Figure 45.5.

	Goal Owner: Swilthe, VP of manufacturing	Metric	2015 Actual	2016 Plan	YTD	YTD Compared to Plan	Forecast	Forecast Compared to Plan	Notes
	Enterprise Goal: Reduce Injuries	%	12%	20%	15%	75%	20%	100%	
	Impact of Learning: High Contribution	%	NA	High		Below Plan		On Plan	YTD and FC contribution based on level 1 and 3 results and ongoing discussions with sponsor
	Programs to Reduce Injuries	**Metric**	**2014 Actual**	**2015 Plan**	**YTD**	**YTD Compared to Plan**	**Forecast**	**Forecast Compared to Plan**	**Notes**
1	**Deliver Phase 1 Courses**								
	Effectiveness measures								
	Level 1: Participants	%	70%	80%	85%	5% above	82%	2% above	YTD sample size = 1872
	Sponsor	%	75%	90%	88%	2% below	88%	2% below	
	Level 2: Test score	%	86%	90%	95%	5% above	92%	2% above	YTD sample size = 3848
	Level 3: Application rate	%	53%	95%	75%	20% below	95%	On plan	YTD sample size = 270 Reinforcement plan in place
	Efficiency measures								
	Unique participants	Number	452	3,000	2,800	93%	3,200	107%	Manufacturing leaders responsible for attendance
	Total participants	Number	858	6,000	5,542	92%	6,300	105%	
	Percentage complete by 3/31	%	NA	95%	92%	97%	92%	97%	
2	**Develop Phase 2 Courses**								
	Efficiency measure: Complete by 3/31	Number	NA	3	3	100%	3	100%	
	Effectiveness measure: Sponsor Satisfaction	%	NA	90%	90%	100%	90%	100%	
3	**Deliver Phase 2 Courses**								
	Effectiveness measures								
	Level 1: Participants	%	NA	80%	80%	On plan	82%	2% above	YTD sample size = 39
	Sponsor	%	NA	90%	90%	On plan	88%	2% below	
	Level 2: Test score	%	NA	90%	92%	2% above	90%	On plan	YTD sample size = 98
	Level 3: Application rate	%	NA	95%	71%	14% below	95%	On plan	YTD sample size = 215 Reinforcement plan in place
	Efficiency measures								
	Unique participants	Number	NA	1,000	892	89%	1,100	110%	Manufacturing leaders responsible for attendance
	Total participants	Number	NA	3,000	2,651	88%	3,200	107%	
	Percentage complete by 7/31	%	NA	90%	88%	98%	92%	102%	
	Summary								
	Total								
	Courses Developed	Number	1	3	3	100%	3	100%	
	Unique participants	Number	452	4,000	3,692	92%	4,300	108%	
	Total participants	Number	858	9,000	8,193	91%	9,500	106%	
	Cost (not including opportunity cost)	Thousand $	$37	$250	$178	71%	$255	102%	

Figure 45.5 Sample Program Report for L&D

In the example shown in the figure, the company's goal is to reduce injuries by 20 percent. L&D leaders have met with the VP of manufacturing and agreed that L&D can very definitely help achieve this aggressive goal. In fact, they have agreed to that high contribution or impact.

What will be required to have this kind of impact on the company's goal? The program report lays it out in terms of the effectiveness and efficiency measures. First, phase 1 courses have to be of the highest quality (effectiveness measures) with an 80 percent favorable response by participants, 90 percent score on the learning, and a 95 percent application rate—all very high numbers and not easy to achieve. And two phase 1 courses need to be deployed to 3,000 employees for a total of 6,000 participants by March 31 (efficiency measures). Second, three phase 2 courses need to be developed by March 31 and meet the high expectations of the VP of manufacturing. Third, the three phase 2 courses must be of high quality (80–95 percent for all three measures) and must be successfully deployed to 1,000 employees by June 30. If all of these plans are achieved for the effectiveness and efficiency measures, then both the VP of manufacturing and the L&D leadership team believe that learning can have a high impact on reducing injuries by 14 percent. If these plans are not achieved, then the company goal of a 20 percent reduction in injuries is in jeopardy.

Notice how the program report pulls all the relevant measures together on one page. It keeps the program manager focused on the company goal (20 percent reduction in injuries), the impact of the program on the goal (outcome measure), and the effectiveness and efficiency measures which are critical to delivering the agreed-upon impact. The effectiveness and efficiency measures are really leading indicators of the outcome measure, and they are all under the control of the L&D department and the goal owner. L&D may exercise more control over the design of the learning, but the goal owner will have more control over actual deployment and application. After all, the participants report to the goal owner, not to L&D, so the L&D team cannot make the participants attend or apply the learning. Clearly, training will have the planned impact only if both parties work diligently together. This requires monthly management to know if the program is on plan and if not, to undertake immediate corrective action to get on plan. The program report is designed to provide just information and is indispensable if the program is going to be managed with business-like discipline.

Using the Reports

The three reports are intended to be used in a dedicated monthly staff meeting with the department head and his or her direct reports. This meeting would typically be 50–125 minutes, scheduled for the same day and time each month. The meeting should occur as early in the month as possible after the reports have been updated for last month's results and leaders have had time to analyze the results.

A typical agenda would cover all three reports:

a. Start with the summary report for the big picture and focus on the outcome measures. How are we doing overall? Identify any goals in which outcome measures are not on plan (5 minutes).
b. Move on to the operations report. How are we doing on our selected effectiveness and efficiency measures at an enterprise level? If it appears we are not going to make plan, discuss this further and decide on corrective action (15–30 minutes).
c. Move on to the program reports. Start with those where the outcome measures are not on plan. Each program manager walks the team through his or her own program report. Special attention is focused on measures that are not meeting plan, where the program manager explains the issue and steps to be taken to address it or asks the team for help. Discussion follows resulting in identification of action steps to be taken prior to next month's meeting (30–90 minutes depending on the number of program reports and the discussion).

The reports will provide all the data needed to identify where action may be required to end the year on plan.

Conclusion

In summary, TDRp employs management principles to bring business discipline to HR and offers a standard framework for measurement and reporting—all new to the profession. Adoption of these principles has the potential to significantly increase the impact of HR on an organization's success, especially in light of the dominant role human capital now plays. By starting with an organization's goals, aligning HR initiatives to them, reaching agreement with the goal owners on planned impact and mutual roles and responsibilities, and actively managing the initiatives, HR can deliver much greater impact for any given budget or staffing level. Similarly, by starting with department goals, choosing the right effectiveness and efficiency measures, reaching agreement on a plan for each, and actively managing them, HR can deliver much higher levels of effectiveness and efficiency.

Conceptually, this is not difficult. Actually implementing it, however, is difficult, given the amount of change required and the relatively low level of business acumen in HR. Diligent work will be required, but the potential payoff is tremendous in terms of impact on our organizations, professional growth, and personal satisfaction.

Chapter 46

The Internal Labor Market Paradigm: A Model for Using Analytics to Evaluate and Interpret Workforce and Business Performance Data

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MANY ORGANIZATIONS SAY THAT THEIR WORKFORCE IS AN ASSET—EVEN THEIR greatest asset. How many manage their workforce as if it were an asset? How many can point to specific methods and processes they use to gauge the payoff from their workforce decisions and expenditures that remotely match the disciplined, quantitative rigor they routinely bring to decisions about financial and physical assets? The answer is very few. Workforce decisions are still made primarily on the basis of industry benchmarks, "best practice" comparisons, management philosophy, employee and market surveys, or simple gut feel. In no other area of business management or investment choice are decisions involving such large sums of money made on such a flimsy, noneconomic basis.

This state of affairs is surprising in light of the current "big data" and analytics revolution that is transforming the way decisions are made in almost every business function and across many fields. The proliferation of easily accessible, digital data on customers, workers, investors, and companies has made it easier for organizations to practice evidence-based decision making. This discipline enables them to target their investments to high-yield areas. While it has been relatively slow to adapt, the human resources (HR) function is also embracing analytics and big data. In recent years, workforce analytics has emerged as a burgeoning domain within HR. There has been a surge in the number of businesses establishing in-house workforce analytics functions. The infusion of data scientists and empirically oriented HR practitioners is helping HR become a more quantitative discipline and helping HR leaders uncover opportunities for improving workforce management.

The type of analytics being conducted is evolving quickly as well. HR professionals and line managers in the vanguard of workforce analytics are shifting emphasis from reporting of basic descriptive workforce data—for example, workforce demographics, rates of employee turnover, distributions of performance ratings—to delivering results from "predictive" models designed to forecast the likely effects of specific workforce practices. For example, recruiters are increasingly turning to predictive models to identify better job candidates and improve the quality of hires. Some organizations are using predictive models to estimate the "flight risk" of their employees, enabling managers to intervene to preempt unwanted turnover among their direct reports. By delivering this kind of output, workforce analytics teams are having an impact on HR. But are they having a similar impact on the business?

Despite these notable advances, building a workforce analytics capability that delivers true workforce intelligence remains a challenge to even the most sophisticated of HR departments. More than ever before, leaders and managers have access to volumes of workforce and performance data, but true insight remains elusive. Workforce analysts struggle to uncover the story within the data and communicate it in a way that resonates with executives and motivates them to action. This is a common lament of HR leaders. As a result, the output of workforce analytics has failed generally to infiltrate the executive suite and seed an authentic asset management view of human capital among top executives. This limits the impact that workforce analytics can have on the business.

In my roughly 25 years of delivering results of advanced analytics to organizations and advising them on their workforce strategies and investments, I have come to believe that while data are the foundation of good workforce analytics and technology essential to facilitate the extraction and delivery of analytical output, they are not what drive its ultimate business value. Rather, the discipline's success depends on the analytical lens professionals use to examine the data—a lens that can be crafted with insight from relevant fields such as labor economics, organizational psychology, and other social sciences. The shift from workforce data to strategically valuable workforce intelligence will not come from new algorithms or ever-more granular data collection alone, though these are worthy undertakings—but from deploying a strong framework, or perspective, on how to synthesize and interpret findings from the data analysis.

The Internal Labor Market Lens

Since the early 1990s my colleagues and I at Mercer have relied on the construct of the *internal labor market* (ILM) as the basis of the lens we use to analyze and interpret workforce and business performance data. The classic idea of an internal labor market invokes a particular set of workforce practices and processes that actually supplant external labor market forces in allocating and pricing labor (Peter B. Doeringer and Michael J. Piore, 1971). In its more modern incarnation, articulated in Nalbantian and colleagues (2004), the idea has been vastly broadened to comprise the entire range of management practices that govern how talent is recruited, selected, developed, evaluated, rewarded, managed, retained, or terminated. The approach is based on the observation that an organization's workforce, the workforce it has today and the one it will have in the future, is the outcome of a set of talent "flows"—entry, exit, development (i.e., promotion, lateral moves, and learning)—and the system of rewards offered by the organization which values employees both for what they bring and what they do. These talent flows and rewards—what we call "ILM dynamics"—are influenced by policy choices and by external labor market conditions. The talent flows and rewards interact to create the human capital of the firm and determine how well the workforce performs. Organizations that understand these ILM dynamics are better positioned to shape their workforce to their business needs.

Mapping the Internal Labor Market

An internal labor market (ILM) map is a well-established way to render an organization's talent dynamics. As displayed in Figure 46.1, the map represents the distribution of employees across career levels and the average annual rates of movement into (i.e., new hires), out of (i.e., turnover), and through (e.g., promotions, lateral moves) these levels over the period analyzed, usually, three to five years.

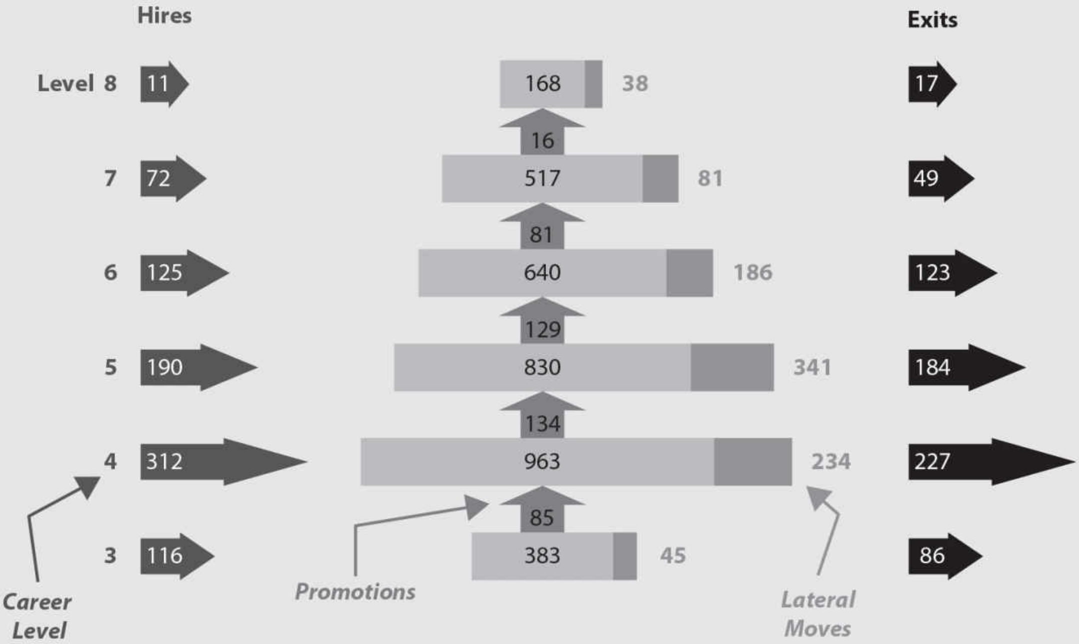

Figure 46.1 Internal Labor Market Map: Representative Example

The ILM map offers a "system-at-a-glance" view of the dynamic process that actually creates an organization's workforce. ILM maps across and even within organizations can differ in shape, size, relative orientation of "buying" versus "building" talent, overall velocity of talent movement, the degree and location of career bottlenecks or choke points, concentration of hiring and/or exits at particular levels, among other things. Observations on these descriptive characteristics can be very revealing about critical human capital issues. Even more powerful is information learned from statistically modeling the drivers of these talent flows and associated rewards to explain why the internal labor market functions as it does and which workforce characteristics and practices are most influential in driving observed outcomes. See Nalbantian, Guzzo, et al. (2004).

Mapping an Internal Labor Market

ILM Analysis® is a way of quantifying and explaining internal labor market dynamics. (For more information on ILM analysis, see Nalbantian and colleagues 2004). The methodology involves a coherent set of models designed to statistically estimate and quantify the drivers of the key workforce dynamics of retention, promotion, performance, and pay. Using this particular lens, organizations can uncover and articulate the story within the data, one that captures the unique opportunities and looming risks related to workforce management. By quantifying key relationships, they can objectively prioritize the actions most likely to help them seize those opportunities and mitigate those risks more effectively. Finally, the ILM lens brings an unambiguously economic view of human capital management, providing the basis to treat workforce decisions as investment decisions.

The Language of Markets

Perhaps the most consequential benefit of the ILM approach is that it uses a language that executives inherently understand—the language of markets. Executives are all about markets. Identifying, understanding, anticipating, and responding to the various markets with which their business interacts—customer markets, capital markets, supplier markets, and external labor markets—is what they do. Executives are constantly working to get a handle on market developments to uncover opportunities to make money. They are constantly seeking advantage over competitors who are engaged with those same markets. That's their prime responsibility. Somehow executives have had a blind spot for internal labor markets. This is ironic as the internal labor market is the only market over which they have meaningful control, unless, of course, their organizations are monopolies.

Part of the problem is that executives may not recognize that they are running a form of labor market. The ILM is very much a market. It performs all of the core functions of more traditional "external" labor markets: matching people to jobs, motivating people to perform in those jobs, and pricing those jobs, along with the attributes, capabilities, and behaviors people apply at work. The only difference is that the ILM accomplishes these functions through internal processes and procedures rather than through arm's length transactions.

Demand and Supply

Like all markets, the ILM is driven by the dynamics of demand and supply. The demand side of the ILM is a derived demand. It reflects the attributes, capabilities, and behaviors that are needed *in and from* the organization's workforce to achieve its business goals. These can be determined using qualitative methods such as structured surveys or interviews that elicit the expert opinions of those closest to the business as to what those workforce requirements are or will be. But they can also be determined through the application of advanced workforce modeling. Careful statistical analysis of the running record of business performance can be used to link workforce attributes and management practices to actual business outcomes. The idea is to uncover from the organization's performance history the real sources of human capital value to the firm.

This professional services firm, for example, used statistical modeling to identify and measure how the composition of sales and delivery teams influenced year-to-year sales growth with respect to their large national clients. Figure 46.2 provides several drivers for revenue growth at a professional services firm.

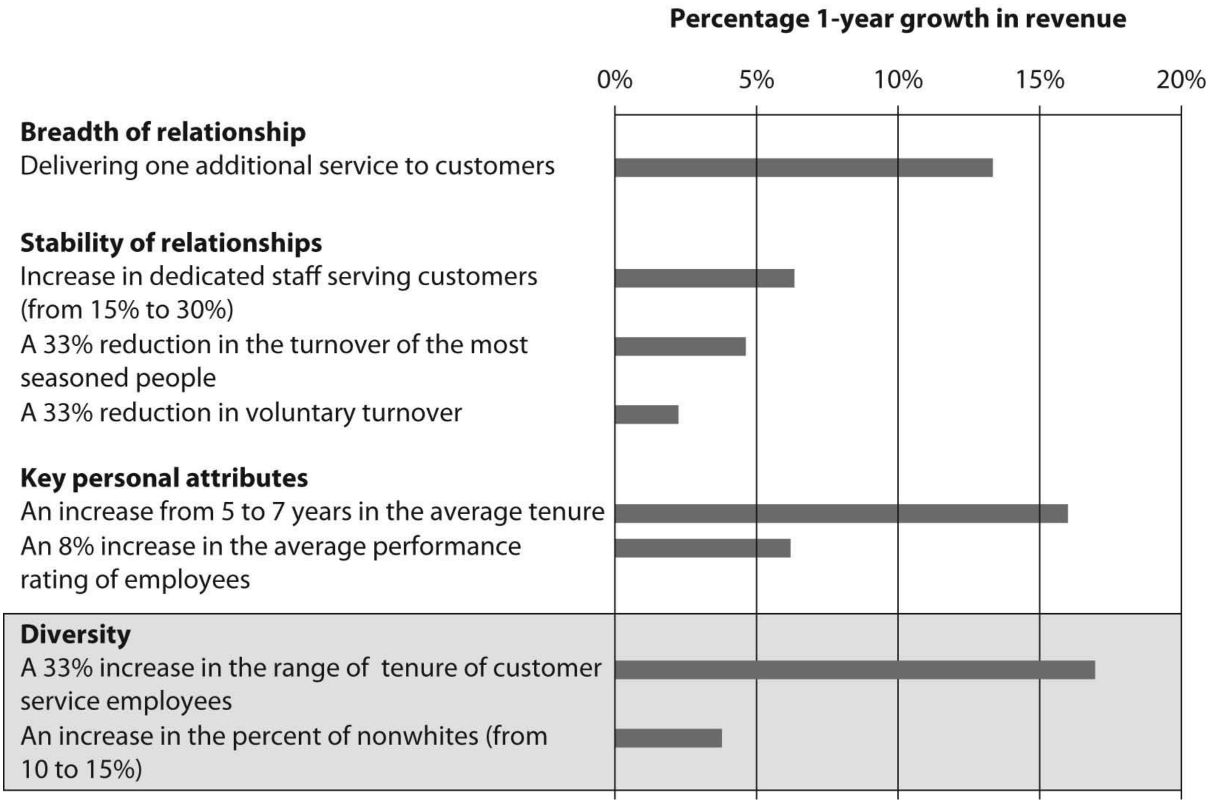

Figure 46.2 Selected Workforce Drivers of Revenue Growth at Professional Company

The evidence showed that all else being equal, greater staffing diversity on these teams—whether it be diversity of disciplines or business practices, diversity of experience as measured by variation in tenure, or even demographic diversity—led to significantly higher sales growth. For instance, teams with higher average tenure among their members far outperformed those with members with average tenure. But those effects were magnified when the most tenured employees were matched with new blood. The results of such modeling effectively provide the basis for a workforce blueprint for sales and delivery teams, outlining an optimal configuration of workforce attributes and behaviors that define the demand side of the company's ILM.

The supply side of the ILM reflects the current and evolving mix of workforce capabilities that reside in the organization or to which the organization has access. These are driven by talent flows noted earlier: how well the organization is able to attract, select, and retain the kind of talent required for business success; how effectively the organization develops this talent both through formal training and development and through on-the-job learning as employees move through assignments, roles, and career levels, among other things; and how well the organization applies this talent to the right ventures and goals and motivates employees to perform at high levels. Simply having the right assets in place is not enough. Inducing talent to perform is a big part of the equation.

Just as on the demand side, insight into supply can be derived through qualitative means—for example, exit interviews that get at the reasons employees leave the firm, or engagement surveys that help gauge what elements of the employment proposition are most valued by employees or what actually influences the level of productive engagement by employees in the firm. Market surveys can also help determine how competitive the organization's pay and benefits and are.

Even more insight on the supply side can be derived from statistical modeling of ILM dynamics. For example, planning for a significant transformation of its business model, a prominent technology company recognized that it would need to replenish its workforce with a greater number of university hires, those with undergraduate and graduate degrees in the fast-developing engineering, IT, and business management fields on which they increasingly relied. This involved a significant shift from the company's traditional sourcing strategy. An analysis of its ILM raised major red flags for the leadership of this company. University hires fared unusually poorly at this company, compared to other sources. All else being equal, they were significantly less likely to be promoted or receive a high rating. Not surprisingly, they were also significantly more likely to leave than colleagues who came in through the company's traditional talent sources. They also cost as much as 20 percent more than comparable talent hired through other sources. Table 46.1 shows how university hires fare compared to hires from other sources.

	Percentage Differences in Probability of Outcome or Base Pay Level			
	Turnover Voluntary exit next year (Y)	Promotion Promotion next year (Y)	Base Pay Compensation level	Rating Above average rating next year (Y)
Source A (vs. referrals)	–50%	+85%	+10%	–
Source B (vs. referrals)	–35%	–45%	+15%	–
University campus recruiting (vs. referrals)	–17%	–45%	+20%	–12%

Example of how to read:
All else equal, university hires are 17% *less* likely to quit, but 45% less likely to be promoted in comparison to employees hired through **referrals**. They are also 12% less likely to get a high rating and cost about 20% more.

Note: "–" indicates that an effect is not statistically significant.

The statistical model upon which these results are based accounts for individual attributes, organizational factors, and external influences and includes all active employees over a six-year period. All effects are significant at the 95% level unless otherwise noted.

Table 46.1 University Hires do not Fare as well as Hires from other Sources, all Else Equal

Clearly, current ILM dynamics were working decidedly against the organization's goal of increasing the supply of this kind of talent. Presuming the determination on the demand side was correct, significant changes would be required in the ILM dynamics of this company to address the talent dynamic that had it on course to fall short. The ILM analysis not only forecast the gap, but was able to quantify the dimension of the differences. It helped leaders focus on appropriate interventions to change this.

Quantities and Prices

Quantities and prices are the defining parameters of all markets. This insight provides the foundation for analyzing internal labor markets. The quantity variables in an internal labor market are represented by the mix of productive characteristics resident in the organization's workforce which, in turn, are produced by ILM talent flows. The rewards offered by the organization function as prices, signaling what the organization values. Employees are influenced by the rewards you give them, and vice versa. Identifying how these quantity and price variables interact provides the stories and narratives executives value when they must make decisions. So, for instance, one can better understand the causes and consequences of unwanted turnover in an organization by also determining what is valued through rewards.

FinanceCo Tackles Unwanted Turnover

Consider the case of a regional bank in the American Midwest, "FinanceCo," which faced sustained, rising turnover among its most seasoned, high-performing employees. This pattern was atypical of turnover patterns —tenure usually reduces an employee's flight risk. Controlled statistical analysis of branch-level performance revealed that employee tenure was the single largest driver of branch profitability, customer retention, and growth, as well as local market share. Specifically, each additional year of average tenure of branch employees had an estimated worth of roughly $40 million. As such, rising turnover among more tenured employees threatened to diminish the supply of the human capital most valuable to the business.

Analyzing the drivers of business performance—the demand side—helped unearth a significant human capital risk facing the company. This is something FinanceCo's executives could readily understand. Now they needed to determine why this risk was materializing. An ILM analysis determined that the source of the problem lay in the company's pay practices for new hires. Responding to labor market pressures, the company was paying significant premiums for new hires, thus eroding the relative pay of more tenured incumbents. Tenure no longer had the luster it once had at what was traditionally a conservative institution that valued longevity. The "return to tenure" for employees had flattened and was on the verge of going negative. There is little mystery why this might influence turnover. The economic logic is simple: if additional experience outside the organization becomes worth significantly more than additional experience within, rational actors are likely to turn to the outside market to enhance their economic position, unless they are otherwise locked in by back-loaded incentive compensation and benefits plans (which was not the case at FinanceCo).

Before they undertook this analysis, FinanceCo's executives had no shortage of data—they could see they had a turnover problem among tenured employees. But they did not know the economic significance of the problem nor could they explain *why* this was happening. The ILM lens quantified the real cost of turnover. Further, it showed that the pricing mechanism within FinanceCo's ILM was not valuing the most critical workforce asset it had—employee tenure or "homegrown" knowledge and capability. The weakening rewards for tenure were eroding the "quantity" variable—the stock of homegrown talent through rising turnover. FinanceCo's ILM was not operating in the way the bank required, mostly because of excessive accommodations FinanceCo was making to external labor market pressures that were driving up the market pay for comparable employees. This was a problem FinanceCo urgently needed to address both by restraining the base pay for new hires in favor of stronger career rewards—for example, by increasing prospective pay and promotion opportunities—and by targeted pay adjustments for their most tenured high performers.

The ILM Lens Permits Simple Economic Stories

The FinanceCo story reveals another fundamental property of the ILM lens—its ability to cut through complex relationships and relate a simple story. HR leaders are prone to be programmatic. They tend to think in terms of the various programs and practices trending in the field and their potential to help the organization achieve specific outcomes. Executives are not versed in HR programs and practices. That is not their domain. They focus on outcomes—especially market outcomes. The ILM lens is agnostic with respect to programs and practices. They are only relevant in so far as they affect an organization's ILM dynamics.

Helping leaders understand how specific programs and practices affect the quantity and price parameters of an ILM grounds their thinking in the economics of workforce management. It was precisely this kind of insight that led the executive team of a major global products company to finally crack the nut on its efforts to strengthen the diversity of its leadership and management teams, and in a way that demonstrably enhanced business performance.

Strengthening Diversity in Leadership at ConsumerCo

Encouraged by its board, the executive team of ConsumerCo was determined to increase representation of women and minorities in its leadership and management ranks. With women constituting a huge part of its consumer base and business growth increasingly dependent on business operations in emerging markets, the company's executive team recognized that greater diversity was a business imperative, not just a question of social responsibility. The thinking was: a leadership that viscerally understands the needs and values of a changing customer base is bound to make better business decisions.

Workforce diversity was not new to the company's talent agenda. The company had long been concerned with the issue. But the programmatic approaches it had undertaken had failed to make a significant impact on representation at the top. Moreover, the executive team was not interested in playing the numbers game, relying on quotas or targets around hiring and promotion to achieve its goals. It was important that actions taken with respect to diversity work hand in glove with the underlying talent strategies—that the company achieved its diversity goals in a way that drives business results. A different approach was in order. Adopting the ILM perspective offered a potential avenue to accomplish these dual aims.

The company undertook a full ILM analysis of its U.S. and global workforces. Drawing on four years of workforce data, our team analyzed the running record of promotions, retention, performance, and pay to statistically identify and quantify the factors that most influenced those outcomes and, ultimately, female and minority representation across the management hierarchy. In this way, we could determine both impediments to the success of women and minorities as well as current strengths in ConsumerCo's ILM that might be tapped more effectively. At the core of this work was development of a "success profile," determining the attributes and experiences associated with success in the organization as measured by career advancement, performance, and pay.

ILM modeling provided an objective, quantitative picture of the success profile for talent at ConsumerCo. Understanding what drives success in an organization is important to ensuring that programs and practices are aligned with business needs. Leaders in organizations often stipulate that the company values certain attributes and behaviors in the workforce. But often what they think they value is different from what they actually value. Relying on intentions rather than actual realizations can be misleading. Further, what actually gets rewarded in the organization may be a more accurate reflection of what drives business value. It is useful for management to objectively assess what success looks like in the organization, both to determine whether its practices are actually aligned with business needs and to ensure that top talent is being put in a position where it can succeed.

Indeed, success is seldom the result of individual capabilities alone. The right people need to be given the right opportunities and experiences; they need to be put in situations that properly test their abilities and make it possible for them to succeed. ConsumerCo's leaders understood that they could never optimize development of the diverse talent in the internal pipeline if they did not get a factual read on how their ILM was operating.

The ILM models estimated for ConsumerCo were able to identify and measure the impact of specific factors—both individual attributes and specific situations or circumstances—that were conducive to advancement, high performance, and higher pay at the company. At the top of the list was being in a supervisor or team leader role. Modeling showed that irrespective of employee demographics, those who became supervisors did well. All else being equal, supervisors were more likely to get a high rating, more likely to be promoted, more likely to be more highly paid, or get a larger pay increase. They were also far more likely to stay with the company. In other words, getting into a supervisor role was the ticket to success at ConsumerCo.

How did this particular success driver play out for women and minorities? Were they as likely to get into those roles as their male and white counterparts, respectively? And if they did, were the benefits from a career perspective as great as those accruing to their respective counterparts as well? Translated into the language of markets, we are asking, in effect, whether the quantity and price parameters associated with being a supervisor were the same for diverse talent as for white males. The answer, unfortunately, was no. The percentages of women and minorities in supervisor roles were significantly lower than those of their male and white counterparts, respectively. They simply weren't getting into those favored positions at the same rate—a quantity shortfall. What's more, all else being equal, neither women nor minorities fared as well as their respective counterparts once they were in those roles. Being a supervisor simply didn't confer the same value. In other words, both the quantity and price dimensions of ConsumerCo's ILM worked against the interests of diverse talent.

ConsumerCo Success Profile—Quantities and Prices

Table 46.2 shows a broad set of results from a model of the drivers of promotion at ConsumerCo. Listed are some of the factors that increase the probability of promotion, all else being equal. Attached to each factor are up and down arrows indicating if and how the quantity and price variables play out for women compared to men and minorities compared to whites. Down arrows mean that the particular group is less likely to be associated with the corresponding attribute or circumstance—have lower "quantities" (Q) of the factor—or earn a lower price (P) for that attribute; up arrows designate the opposite.

Size of Effect	Favorable on Promotion	Women (versus Men) Q	Women (versus Men) P	Minorities (versus Non-Minorities) Q	Minorities (versus Non-Minorities) P
Higher	Being a team leader	↓	↓	↓	↓
	High rating category A	↓	↑	↓	↓
	High rating category B	↑	↓	↓	↑
	Function 1	–	↓	–	↑
	Function 2	↑	↓	–	↓
	Function 3	↑	↑	–	–
	Reporting to higher level than norm	↑	↓	–	↑
	Recent job change/non-promotion	–	↓	↓	↑
	Having a larger span of control	↓	↑	↓	↓
	Being in a group with more varied tenure	–	↓	–	–
Lower	Higher degree	↓	↓	↑	↑

Q = Quantity (Relative possession of the trait)

P = Price (Relative promotion likelihood)

Both women and minorities are less likely to be in team leader roles (Q↓), and they do not benefit as much as their male and white counterparts (P↓), respectively.

BOTTOM LINE

Women are more negatively impacted by "price" (P) effects

Minorities are more negatively impacted by "quantity" (Q) effects

Table 46.2 How Do women and Minorities Fare on the Factors That are Favorable to Promotion?

Generally speaking, at ConsumerCo, the barriers to the advancement of women tended to be about ILM prices; even when the women show the attribute associated with success, they benefit from it less. For minorities, the situation was the reverse. They were less likely to be associated with the success driver than whites. But if they did possess it, they would do equally well and sometimes better. Without changes in the quantity and price parameters of ConsumerCo's internal labor market, there was little likelihood that diverse talent would advance quickly and strongly enough to change the representation in the leadership ranks.

The same was true with other significant success drivers as seen in Sidebar 2. By exposing these differences, ILM analysis provided the basis for a new strategy that aimed to change how the company's ILM functions.

Armed with these insights, ConsumerCo's executive team understood that strengthening diversity was no longer about fiddling with representation numbers or pursuing standard programmatic interventions like mentoring or unconscious bias training. It was about something far more fundamental: addressing a form of market failure that impeded the success of diverse talent and hurt the business. It became a business imperative to change the quantity and price dynamics of ConsumerCo's ILM.

Leadership moved quickly to address the challenge. Priority was given to ensuring that diverse talent was represented, as a matter of course, on all candidate slates for all job openings. Special attention was paid to accession of women and minorities into the all-important supervisory roles—at all levels. An entirely new system of performance management was put in place to address systematic differences in evaluation of leadership potential, a pattern also unearthed by the ILM analysis. Within just a few years, these and other measures helped ConsumerCo dramatically increase representation of women and minorities in its leadership ranks in a way that has proved sustainable and effective. Leaders not only appreciate the changes made, but attribute the huge uplift in their business performance to the creation of a more dynamic and aligned ILM.

The ability to engage and motivate the executive team has been perhaps the major reason for the success of ConsumerCo's new diversity and inclusion strategy. The translation of data and analytical findings into economic terms that executives understand made all the difference. HR met the business on business terms. HR came with hard evidence, rooted in an objective economic view of what was happening in the company's

ILM and how it influenced the outcomes of interest. Complex relationships between talent deployment, career development, performance management, and rewards were reduced to a rather simple story about the interplay of quantities and prices that were producing ILM outcomes at odds with what the business required. If the organization wasn't nurturing and valuing the supervisory and leadership capabilities of its diverse talent—"pricing" them correctly—it was no wonder that representation of diverse talent in top management and leadership roles—the "quantities"—were falling short as well. Relevant prices would have to be adjusted to drive corresponding changes in quantities. The programs and practices devised by HR were simply instruments to drive change in ILM dynamics, not ends in themselves. ILM dynamics became the focus of analysis.

Quantitative determination of ILM dynamics provides a guide or reference point for HR leaders to use in designing their programs and practices. They are better served starting with these dynamics, not with the programs. Similarly, once executives understand their workforce issues in terms of ILM dynamics, they are better able to process the logic behind the programs and practices HR seeks to introduce. They don't need to get into the weeds of program design, but can keep focused on the challenge of program impact, with clear targets around price and quantity adjustments as engines of adjustments in ILM supply and demand.

What, at a Minimum, Do You Need to Know About Your Internal Labor Market?

There are many dimensions of an internal labor market that can be quantified and assessed through ILM modeling. Regardless of whether you conduct such modeling or not, it is always good to think about core characteristics of your internal labor market and what you would like them to look like under the best of circumstances. To achieve this end, you should consider the core dimensions below and try to answer some of the associated questions:

Know who you're selecting . . . and how they fare

- Are the screens used in recruitment predictive of better outcomes such as better retention or higher performance?

- Are some of the screens better than others in predicting these outcomes?
- Are the screens capable of distinguishing individual outcomes from contribution to team effectiveness?

Know who you're retaining ... and what the "right" employees actually value

- Are you retaining your top talent, including high performers, high potentials, those with critical skills?
- How much of turnover is driven by employee demographics or the influence of job families and location, as compared to people management practices?
- Are employees more responsive to elements of pay or to factors relating to careers?

Know what you're rewarding ... and whether the profile aligns with business needs

- Are you rewarding what your business needs to reward—that is, do you value the attributes, capabilities, and behaviors required to be successful?
- To what extent are rewards driven by performance?
- Are individual, group, or organizational measures of performance most determinative?

Know how careers unfold ... and if there are better, quicker ways to develop talent

- Are there multiple career paths within and across domains, and are some more productive than others?
- Are there career choke points or bottlenecks that stall up-and-coming talent and hurt their development and retention?
- Are there some positions—namely, "catcher positions"—that are more likely to lead to advancement and tend to feed a greater variety of higher level roles? (See Nalbantian and Guzzo, HBR, 2009.)

Know how vulnerable you are to changing labor market conditions ... and whether various workforce and business segments respond differently

- To what extent do changes in labor market conditions affect the likelihood that employees will turn over?
- Are these sensitivities the same for all job families and business units, or particular to certain ones only?
- Are you more or less labor market sensitive—in turnover, pay, and promotion—than other major competitors? Is this a good or bad thing, given your current business needs?

Conclusion

The case examples presented here demonstrate the importance of having a good analytics lens to apply to increasingly abundant workforce, labor market, and performance data. Pure "data mining" of the kind many marketers practice and many users of packaged workforce analytics undertake may be revealing of patterns in the data that could have meaningful implications for tactical policy decisions. But results of data mining can be misleading, driven by potentially meaningless correlations that are more an artifact of available data than of substantive relationships and that may actually camouflage more fundamental relationships embedded in an organization's ILM. Worst of all, the shadowy black boxes of so many predictive analytics regimes are not geared to provide the insight to explain "the why" behind the prediction—often deliberately so. This is a serious deficiency. Explanation, not prediction, is the essential ingredient of strategy making. It is what is required to create a coherent vision of how an organization can secure and manage its human capital and a road map to accomplish business goals. Prediction alone can inform tactical decisions such as the choice of candidate slates, but is unlikely to provide the insight required to develop successful workforce strategies, such as a talent acquisition strategy.

Without a well-designed lens, grounded in rigorous research and refined through experience, workforce data remain just that—data. This is the problem many analytics functions are grappling with. They have plenty of data to work with and increasingly good technology to access and report their findings. They also have access to data scientists and statisticians who bring big data methods and more traditional statistical modeling to analyze the available data. Too often they lack the analytical lens. They lack a coherent analytical engine that they can consistently apply to these data to find, synthesize, and communicate meaningful stories.

Workforce analytics groups that simply deliver data, whether descriptive or predictive, will likely devolve to serving as reporting functions or, at best, functional tacticians, providing little strategic value to the organization. There is little future in those roles—the future belongs to workforce analysts who can meld statistical modeling and storytelling—science and art.

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Chapter 47

The Role of HR Technology in Talent Management

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DESIGNING AN HR PROCESS WITHOUT CONSIDERING THE TECHNOLOGY THAT WILL support it is like designing a building without considering what materials will be used to build it. You are likely to create a beautiful conceptual design that is not possible to build given the materials available, or you will build something that falls apart because of incompatibilities between the design and the resources needed to maintain it.

The book *Commonsense Talent Management*, defines HR technology as "specialized computer systems designed to support HR processes," [Steven Hunt (2014). *Commonsense Talent Management: Using Strategic Human Resources to Improve Company Performance.*Wiley]. The focus of this chapter is on understanding the interdependent nature of talent management processes and HR technology systems. Section 1 explains the critical role technology plays in talent management. Section 2 discusses the evolution of HR technology over the past 45 years. Section 3 discusses limitations and risks associated with the use of HR technology. Section 4 discusses the capabilities talent management professionals must develop to maximize the value of HR technology to support business objectives.

Section 1. Why HR Technology Matters

Talent management professionals need three things to improve business performance of a company:

- *Expertise* in methods for attracting, managing, engaging, developing, and retaining employees.
- *Credibility* so business leaders will listen to their advice based on their expertise.
- *Technology* to efficiently deploy their expertise across the organization.

Expertise and credibility are necessary to influence the organization. But they are meaningless without technology that enables the application of this expertise across the company where it is needed. Expertise residing in the heads of HR professionals may be interesting, but it is not valuable to a business until it changes conversations, behaviors, and decisions of people across the organization.

HR Technology Amplifies and Extends Talent Management Expertise

A primary function of HR technology is to take knowledge from the minds of talent management experts and disseminate it in a way that influences the actions of the workforce. As an example, consider the value provided by online candidate screening technology. Candidate screening technology collects information from job candidates through online surveys or other automated methods and uses the information to evaluate whether they are well-suited for different types of jobs. This technology adds value by automating methods designed to differentiate between qualified and unqualified candidates. It does this by asking candidates to answer job-relevant, legally appropriate, and predictively valid questions that talent management experts use to determine whether someone should be hired for a position. In essence, the technology allows candidates to be screened by talent management experts without requiring the experts to meet the candidates and hiring managers involved in the staffing process.

Technology Constrains and Enables HR Process Design

For HR technology to work, talent management professionals must adapt their expertise so that it can be delivered using the capabilities of the technology system. For example, getting value from candidate screening technology requires talent management professionals to develop staffing questions that work within the constraints of the screening technology system. Failure to consider HR technology when designing talent management processes can result in creating processes that cannot be effectively deployed across the organization. Such processes have limited business value since they can be used only by managers and employees who interact directly with the talent management professionals who developed them.

Technology places some constraints on process design. But technology can also enable creation of processes that were not previously possible. To illustrate the relationship between technology capabilities and process design, consider the interrelationship between technology and performance management. For years, people have complained about the ineffectiveness of annual performance appraisals. Given how many people dislike annual reviews, one might ask why these processes were ever created in the first place. Did someone think it was a good idea to design a talent management process that encourages managers and employees to try to fit a year's worth of assessment, feedback, and development discussion into a single, once-a-year hour-long conversation?

I suspect the reason companies originally created traditional once-a-year annual performance appraisals was because it was the best they could do given the technology available at the time.

It seems unlikely that people would create a traditional, once-a-year annual performance appraisal process if they had access to online, mobile, and social technology. Now that these technologies are readily available, companies are redesigning performance management processes to emphasize ongoing performance conversations rather than once-a-year annual reviews. Similar examples can be found for virtually every aspect of talent management. Advances in staffing technology have replaced time-intensive manual résumé review processes with automated methods that find and screen candidates using online data collection and scoring algorithms. Advances in online social learning and simulation technology are leading companies to radically modify or totally eliminate costly classroom training courses. Advances in mobile technology are reshaping how we communicate to employees, provide feedback, and hold coaching conversations.

You will use technology to deploy talent management expertise. What HR technology will be used and how it can be maximized to support the needs of your company are the primary considerations. We design talent management processes based on what we believe is possible, and HR technology largely defines what we believe is possible. The more we understand the capabilities of HR technology, the more effective we become at creating processes that use technology to maximize the value of talent management expertise.

Section 2. The Evolution of HR Technology

Widespread use of computer technology to support HR processes perhaps first occurred in the 1960s when companies began using computers to score assessments to support staffing and certification decisions. Since then there has been steady growth in use and sophistication of HR technology. This evolution of HR technology is both a cause and consequence of talent management process design. When talent management professionals develop more sophisticated processes, they create pressure to develop more powerful HR technology systems to support them. Conversely, the creation of more powerful HR technology systems encourages the creation of more sophisticated talent management processes to address more challenging problems.

The interaction between HR technology development and the problems it addresses has led to significant shifts in the focus of HR technology over time. The evolution of HR technology can be divided into four general phases based on the kinds of questions it is addressing. Discussion of the four phases follows.

How Can HR Technology Help Manage Personnel Administration? (About 1970 to 1990)

After mainframe computers became widely available in the late 1960s and 1970s, companies started exploring how technology could support administrative tasks associated with personnel management. From about 1970 to 1990 the primary focus of HR technology was on automating administrative HR functions such as payroll and employment recordkeeping. The main goal of HR technology during this period was to reduce administrative costs and avoid legal and financial risks associated with employing large numbers of people. Examples of technology applications first developed during this era included automated time clocks to track employee work hours, payroll systems that calculated and dispersed employee paychecks, and test scoring systems used to evaluate answers to paper-based preemployment and job certification tests. This administrative HR technology is now so ubiquitous to organizational life that it is hard to imagine running a large company without it.

How Can HR Technology Improve Specific Talent Management Methods? (About 1990 to 2005)

As desktop computers became a common part of office life, companies started exploring how this technology could improve decisions and actions associated with hiring, developing, and motivating talent. This interest in improving talent management methods was also fueled by the shift to a knowledge- and service-oriented economy where employee performance was a critical business differentiator. HR technology applications that were developed during this period tended to focus on specific talent management processes. Examples of HR technology originally created in the 1990s include computerized assessments to measure job candidate attributes and abilities, computerized systems to generate reports based on employee responses to organizational questionnaires and surveys, computerized training courses, and computerized job analysis tools to define work requirements and responsibilities. HR technology applications created in the 1990s continue to be developed and grow more sophisticated. For example, computerized assessment and training programs now incorporate complex simulations and mobile content delivery tools that are well beyond what was available or even possible 20 years ago. But the roots of most single-function talent management technology applications can be traced back to technology innovations that originally occurred during the 1990s.

How Can HR Technology Help Coordinate and Integrate Different HR Activities? (About 2006 to Present)

The development of cloud-based HR technology platforms encouraged companies to look at ways to align different talent management processes; for example, linking staffing technology, training technology, and administrative HR technology to support onboarding of new employees. Or linking performance management technology, career development technology, staffing technology, and succession technology to build internal talent pipelines. Although the advantages of integration are considerable, achieving integration is often challenging because it requires aligning talent processes and HR technology systems that were historically designed and run in isolation.

Integrated HR technology creates many benefits. Companies can better coordinate different aspects of talent management to build holistic talent strategies; for example, adapting learning programs to reflect the individual skills of newly hired employees or creating stronger links between succession planning and employee career development. Integrated HR technology platforms can also create a better end-user experience since employees use the same system for all talent management activities. Another benefit is better analytics, particularly if the technology supports both administrative HR functions and talent management processes. Bringing different types of data such as employee turnover, performance, training activity, or pay decisions into a single technology platform enables creation of far more interesting reports. For example, instead of reporting on traditional things like average employee turnover, companies can examine questions such as, "How does turnover differ across employees with different levels of pay, performance, or training?"

How Can HR Technology Help Address Highly Complex Workforce Challenges in the Future?

We are now entering another phase of HR technology evolution. This next transition focuses on addressing highly complex workforce management challenges such as building diverse and inclusive workforces, creating more effective employee-manager relationships, and conducting more effective workforce restructuring. What makes these challenges difficult to overcome is that they can be addressed only through coordinating multiple HR activities. Companies cannot effectively address these challenges without using integrated HR technology platforms. But integrated human capital management (HCM) technology systems spanning the full range of administrative and strategic HR functions did not exist until 2012.

Gender equity is one complex workforce challenge. Companies have been struggling to close the gap in retention, promotion, and compensation between men and women. The problems created by gender inequity are easy to measure, but the solutions are very complex. Most gender inequity arises from subtle and unconscious biases occurring throughout the employee lifecycle. Inequity starts with hidden biases that influence how companies build applicant pools. It resurfaces in various forms during hiring, onboarding, management, performance management, compensation, and promotion. Biases at one step impact other steps. Biases affecting how employees are managed create biases in who applies to begin with, and vice-verse. Companies cannot address gender inequity just by focusing on a single HR process such as training managers or changing staffing methods. Increasing workforce diversity requires addressing the full range of talent management areas that cause bias. In the past, launching such a comprehensive effort was virtually impossible because of the level of resources and coordination required. But now, with fully integrated HR technology, it seems that such comprehensive efforts may be within reach.

Note that these transitions do not supplant each other, but build on top of each other. For example, companies are still developing more sophisticated forms of technology to support administrative HR challenges associated with functions like payroll. However, in the 1980s virtually all HR technology was focused solely on administrative process efficiency. No one was using HR technology in a meaningful way to integrate strategic HR methods focused on talent management. Now companies are simultaneously developing and using HR technology to better support administrative HR, strategic HR, and integrated HR. At the same time, companies are just beginning to take advantage of their new integrated HR technology solutions to address even larger problems related to diversity, job restructuring, and work quality that actually go beyond the realm of work and affect entire societies.

Section 3. Understanding and Respecting the Limits of HR Technology

HR technology is a powerful tool for improving organizational performance, but it works only if used correctly. It can also do harm when misused. To ensure that HR technology is used "for good not evil," it is important to appreciate its value while respecting its limitations. HR technology works best when it is designed to enhance the performance of people. It can cause harm when it is used to replace people entirely or when it forces people to act in unnatural ways.

The Best HR Technology Leverages People's Strengths and Augments Their Weaknesses

The most valuable applications of HR technology tend to either (1) help people do things that are difficult or tedious, or (2) enable people to do things that fit our natural preferences and styles. Staffing technology is a great example of HR technology addressing tasks that are tedious and difficult. (Staffing technology applications are applications that help companies recruit, manage, screen, select, hire, and onboard employees. If you want to see an example of this technology, visit the career site of any Fortune 1000 company and go through the steps involved to find employment opportunities and apply for a job.)

Finding, managing, screening, and selecting a few employees from a large number of candidates involves performing tasks that most people neither enjoy nor are good at. It requires gathering information about candidates, sorting through this information, and then deciding who has the best potential for success. Many recruiters tend to overlook important details such as specific job interests or previous work experience. They may be influenced by nonfactors such as believing a candidate's name "sounds like" the kind of person who would perform the job. Sorting through scores of candidates is boring and can cause one to develop shortcuts that decrease the quality of the hiring decision. A common shortcut is eliminating people based on some arbitrary minimum number of years of experience doing some typically poorly defined job task. The widespread creation of staffing technology designed to help find, manage, select, hire, and onboard new employees largely started in the late 1990s. Prior to 1998 few large companies used staffing technology to hire employees. By 2003 almost every major company was using some form of staffing technology. Staffing technology has spread quickly because it allows companies to effectively perform repetitive staffing tasks that people are neither good at nor enjoy.

Online social learning technology is an example of HR technology enabling people to more effectively leverage their natural talents. (This technology has applications that allow employees to create and post recordings, videos, documents, and other materials on online sites designed to facilitate knowledge sharing and discussions with other employees.) The most natural way for people to learn is through apprenticeship-type social learning relationships where novice employees work with more skilled employees. The problem with the apprenticeship approach is that it doesn't scale well. There aren't enough apprenticeship opportunities available to produce the number of needed skilled employees. Organizations developed training courses and written manuals because these provide a way to scale training without the limitations associated with social learning methods. The classroom setting is not the optimal learning environment. People learn best when shown what to do and coached to do it themselves. This is what social learning technology is designed to provide. Online social learning technology was first created around 2010 so experts could record and share short learning videos that can be viewed and discussed in a manner that mimics apprenticeship relationships. It was inspired and fueled, in part, by the advent of YouTube. The adoption of social learning technology has been fast and widespread. In less than six years, this new form of HR technology has become a common learning method. Currently, it may be more popular than reading books or attending classes.

Staffing technology and social learning technology might be considered the "gold standard" of HR technology in terms of their adoption and impact. A reason these technologies have been so successful is that they leverage strengths and mitigate weaknesses that are inherent in being human. Relatively little change is required to get companies, candidates, and employees to use these tools. Technology appeals to human nature and, when introduced, causes reluctance to go back to the old ways.

HR Technology Is the Cause and Solution to Many of Our Most Reviled Talent Management Processes

HR and talent management processes can largely be divided into two categories. The first and most traditional are processes focused on "control." These are designed to ensure that employees are working in a way that aligns with the goals of the company. Things like time tracking, organizational hierarchies, certification tests, and annual performance reviews fall into this category. These are processes that are often seen as dehumanizing. The second are processes focused on "enablement." These are designed to inspire and support employees to work in a way that aligns with the goals of the company. Things like team building, employee recognition, and coaching fall into this category and are viewed more positively.

Control-based talent management processes often seem artificial and even "unnatural." These processes are accepted as an expected part of work even though they are disliked and ineffectual. How can they be eliminated?

Many of the control-based processes people hate are a result of historical conflicts between the need to scale talent management processes and the limitations of existing HR technology. Perhaps the best example is performance management. As discussed earlier, it is unlikely that anyone ever intentionally created a performance management process that encourages managers to provide feedback only once a year and combine a discussion about past performance, future goals, career development, and compensation increases into a single 60-minute meeting. Yet that is what many traditional performance management processes do. Poorly designed processes resulted from organizational scale and human capital management (HCM) technology limitations. As companies grew, corporate leaders became concerned about having a fair and consistent way of measuring performance across the workforce. Yet until the 1990s the only technology available was paper forms or highly static computer templates.

As HR technology evolves, in addition to performance management, other reviled and ineffectual HR processes and tools will be abandoned or radically redesigned. For example, the hierarchical organization chart, as long as can be remembered, is a way to organize large numbers of people. Companies continue to use these charts even though they encourage functional silos and artificial distinctions between job roles. HR technology is now being developed to enable more fluid and dynamic communication of roles and responsibilities across shifting groups of people. Companies are abandoning the use of organizational charts in favor of more dynamic technologically enabled project management methods that encourage the natural formation and dissolution of teams based on shifting work needs and workforce capabilities. Other relatively restrictive, control-based HR processes like annual compensation increases, annual goal setting, or classroom-based training programs could soon face similar fates. HR technology is increasingly enabling companies to design processes that support collaboration and productivity across large groups of people while eliminating unnatural processes and models that primarily serve to enforce control and compliance.

HR technology can help eliminate "unnatural" talent management processes, but this won't happen unless HR professionals approach the use of technology with this vision in mind. This requires changing the mindset of HR from a function that historically focused on developing processes to control employee behaviors and resources to a function that enables employee actions and results. Table 47.1 illustrates how this shift in mindset changes the nature of several common HR-related activities. For example, there is a big difference between assigning goals and aligning goals even though both involve focusing employee attention on job-relevant activities. Technology can be used to support the actions in both columns. How employees react to HR technology is often much less about the technology itself and far more about whether companies are using the technology to control or inspire.

Controlling Behavior and Resources	Enabling Action and Results
Assigning employees job goals and telling them what they need to do to support the company	Aligning employees job goals with the employees' career objectives and the overall company strategy
Making ratings and evaluating past performance	Discussing accomplishments and encouraging and supporting future contributions
Taking classes and attending courses	Learning from others and sharing experience, knowledge, and insights
Completing processes and complying with requirements	Engaging input and doing high-quality work

Table 47.1 Shifting from Controlling Behavior to Enabling Action

HR Technology Becomes Problematic When It Does Things That Should Be Done by People

Machines aren't good at building relationships with other people, anticipating and responding to people's emotional needs, or making decisions that have a major impact on people's lives such as eliminating jobs, hiring candidates, or allocating compensation.

As a general rule, use HR technology to support people, not to replace them. The exception is when HR technology is being used to automate things that people are not good at doing, do not want to do, or are unable to do. For example, performing repetitive tasks or processing large amounts of information. But avoid using HR technology in a manner that removes people from the talent management process entirely. For example, it makes sense to use HR technology to process information to evaluate whether a candidate is likely to be successful in a certain job. This information can help hiring managers determine whom to interview first for a position. But the decision on whether to hire someone should be made by an actual person, not a machine. Similarly, technology can be very useful for collecting information to guide decisions related to employee performance, compensation, and development. But performance evaluations, compensation decisions, and coaching conversations should remain human actions. HR technology should facilitate these actions, but it should not perform these actions without active and intentional involvement of employees and their managers.

People do not feel accountable for actions or decisions that are "forced upon them" by technology. Managers must interpret and explain decisions. Second, technology has a limited perspective when it comes to making sensitive judgments and decisions related to talent management. It may not pick up important contextual variables that might be obvious to a person. For example, technology can measure whether someone failed to complete a goal, but it cannot appreciate the reasons why a person failed to achieve the goal or judge whether the failure might be justifiable given the challenges he or she faced. Third, from a fairness perspective most people do not want to be judged solely by machines. This is a particularly important issue when it comes to the use of complex scoring algorithms and machine-learning technology. Technology is extremely valuable in sorting through data to help companies make better talent management decisions, but companies should not hide behind technology when they are asked to explain decisions related to staffing and compensation that significantly impact people's careers. Instead they should welcome such questions as an opportunity to explain how the company makes talent management decisions.

The goal of HR technology is not to reduce the involvement of people in talent management. The goal is to allow people to focus their time and energy on the parts of talent management that humans are naturally good at and that machines tend to do poorly. This is particularly true for crucial talent management conversations and decisions that involve treating people in a humane manner. There are many talent management tasks that require treating people with compassion, understanding, sensitivity, and empathy. Technology can and should play a role in supporting these tasks.

Section 4. Approaching HR with a Technology Mindset

Twenty years ago it was possible to find areas of talent management that did not make extensive use of HR technology. Now HR technology permeates almost every aspect of talent management. To be fully effective in a highly digitalized world, talent management must be viewed through a technology-based mindset. This does not require being an expert in the technology itself. It does require making decisions taking into account the capabilities and constraints associated with HR technology solutions.

Have a Cross-Functional Perspective

Talent management involves a range of activities that are related yet distinct. One of the challenges facing organizations is ensuring coordination across these different activities. For example, the act of hiring employees involves a different set of activities from the act of developing them. Yet how a company develops employees significantly impacts the kinds of people it needs to hire and its ability to attract different kinds of candidates to the organization. Conversely, the kinds of employees a company is able to hire profoundly influences how it will need to develop them. Although different talent activities such as staffing and development are clearly interrelated, historically companies managed them as separate processes because it was too difficult to coordinate them.

One of the benefits of modern, cloud-based HR technology is the ability to coordinate activities and share data across different talent management processes. This is enabling companies to independently manage different types of HR activities while still keeping them intertwined. By using HR technology to break processes into more specialized components, companies can improve their design. At the same time, companies are using HR technology to share data and create alignment between different processes. For example, information collected on employees during the screening and selection phase of the staffing process may be used to tailor subsequent actions that may occur in the employee development process. This concept of divide yet integrate is a consistent theme in the current development of HR technology. To benefit from these advances, HR professionals must look beyond particular areas of functional expertise and consider how to work in one aspect of talent management that could leverage or contribute to work in other areas. This will come from redefining how HR people think of themselves. It will go beyond traditional role definitions focused on specific processes such as "compensation" or "succession" to embrace broader, more cross-functional concepts like "employee engagement" or "workforce agility" that transcend any single talent management activity.

Focus on Process Results, Not Process Design

Innovations in HR technology make talent management processes possible that were not feasible in the past. The use of HR technology also imposes limitations on process design. It is common for HR practitioners to criticize HR technology systems because they do not support the processes they wish to create. Such criticisms are valuable because they spur technology innovations. They can also be misguided as current HR technology systems may be capable of achieving the results associated with a process but do it through a different process approach.

The following example illustrates the difference between focusing on process design and process results. I worked with a company that had designed a very complicated succession management process built around 12 key reports. Tremendous thought had gone into the design and aesthetic appearance of these 12 reports. Unfortunately, the way the reports were designed was incompatible with the capabilities of the HR technology the company was using. The people who designed the reports initially rejected the HR technology as not providing adequate capability to support the company's needs. Then someone asked whether the goal of the process was to "create 12 reports" or "facilitate better decisions about talent." People quickly agreed that the goal was to enable better talent decisions, not create 12 specific reports. We then began discussing how better decisions could be supported using reporting capabilities found in the HR technology system. After some exploration and creative thinking, it was agreed that the HR technology systems could support the same decisions as the "12 reports" by using a different approach to integrate and display talent data.

The point is to start with the end in mind. Focus on defining what you want leaders, managers, or employees to do differently from what they are doing now. The goal should never be "to create a new talent management process." The goal is to do things that create more frequent and effective conversations, enable more efficient and accurate decisions, create greater insight and better strategies to address talent issues, or to do something else associated with changing how the company manages talent. Do not look at process design until after you have clearly defined the end results you wish to achieve. And then actively consider the capabilities and limitations of the HR technology when you start designing the process. Remember, little value is gained from creating a talent management process that you cannot deploy.

Be Simple but Not Simplistic

When employees complain about having to use poorly designed HR technology, what they are often complaining about is having to use HR technology that is enabling a poorly designed talent management process. The challenge to creating effective but simple-to-use talent management processes is that they are fundamentally about people and people are not simple. Companies frequently use overly simplistic models and questionable assumptions in order to deal with the complexity of people. Things like organizational charts, job profiles, and performance assessments were created so that companies could efficiently track, manage, measure, and coordinate large numbers of people given the technology they had available. All these things require making generalizations that grossly oversimplify the nature of jobs and the relationship between people and work.

The use of forced ranking in performance management is a good example of an overly simplistic talent management process designed to deal with a complex problem. Forced ranking was created because companies wanted to invest more in those employees who contributed more to the organization. The problem is that companies did not have any easy way to measure actual employee contributions. So they adopted forced ranking as a simple way to get managers to differentiate between employee contributions. Then they designed HR technology tools that literally forced managers to rate some employees higher than others regardless of how managers may have felt about the validity of these rankings. Modern HR technology can now provide companies with far more visibility into the contributions made by individual employees. As a result, we are seeing organizations replace forced ranking methods with more effective collaborative talent review processes. These new talent review processes take more time to complete than the forced ranking methods they have replaced. This is because managers are no longer simply rating and ranking employees. Instead, they are spending time talking to other managers about the contributions of their own employees. Despite spending more time on these new processes, managers tend to find them more useful, accurate, and fair. The old forced ranking methods may have been simpler to use in terms of time and energy, but they were not better to use because they were overly simplistic.

As the world becomes more complex and diverse, companies must more fully embrace the complexity and diversity of the labor force. This requires understanding the ways in which people differ and how these differences influence success in different jobs and work environments. HR technology plays a critical role in this by providing tools that help companies more effectively define and rapidly update job requirements and more accurately identify, assess, and develop job-relevant employees skills, capabilities, and interests. This will also enable companies to stop their historical tendency to overrely on a few exceedingly simplistic staffing and performance criteria tied to traditional notions of job success.

New processes enabled by HR technology may not and often should not be simpler than the older processes they replace. One of the values of HR technology is its ability to help companies embrace the complexity of people without being overwhelmed by it. The goal is not to create simplistic processes, but to create processes that are simple to use. This comes from the effective use of automation, user design, and mobile technology to create processes that are efficient, intuitive, and accessible. These processes may be more time consuming but still be simpler to implement because they provide more fair, accurate, and effective ways to manage an inherently complex workforce.

Plan for Constant Change

Twenty-five hundred years ago the Greek philosopher Heraclitus stated, "The only constant is change." The modern version of this statement might be "the only constant is the ever accelerating rate of change." Companies must constantly adapt their strategies and practices to deal with changes occurring in business markets, economies, and societies where they operate. Companies must also deal with changes occurring within their internal workforce such as loss of talent resulting from retirement or turnover. Companies may not find these changes easy to make, but they have no choice. Its either adapt or die. One of the advantages of modern cloud-based HR technology is the speed at which it can be modified and changed. This allows companies to more easily update their internal talent management methods to adapt to external business changes. Talent management processes and the HR technology used to support them should be viewed as things that are constantly evolving. As one person put it, "Managing HR technology is more like tending a garden than building a house. It continuously grows and evolves to support the changing needs of the company it serves."

HR technology is also transforming how companies approach the issue of change management. The traditional notion of "planning a 6-month change management program" does not work in a world where major strategic changes happen every 12 to 18 months. Change is happening so often that it is becoming an expected way of life. Technology is driving much of this change, but it is also a tool for managing change. Consider the example set by consumer technology. When consumer application providers such as Facebook or LinkedIn change their technology, they don't put users through a change management program. They simply change the apps and users adapt. Similarly, as long as HR technology is easy to use and performs a function that employees understand and believe is valuable, many employees will simply use it. The technology itself drives the change. Change is no longer something that you manage; it is just something that you do.

HR technology can be a key tool for enabling, adapting, and managing change. This requires thinking about how HR technology can be used to communicate changes in company strategy and approach, equip employees to adapt to these changes, and if necessary hold employees accountable for supporting and embracing the changes. It also means thinking about HR technology and the associated talent management processes it supports as something that is subject to constant revision and improvement. Care must be taken to avoid creating change for change's sake. But given the current pace of innovation and business change, any HR process or technology that stays static for more than three years is almost certainly in need of modification.

Progress Is Ultimately Driven by People, Not by Technology

Looking back at HR technology over the past 20 years, I am struck by three observations. The first is how ubiquitous technology has become to talent management. Twenty-five years ago it was possible to implement talent management processes with limited use of technology. The relationship between HR professionals and HR technology providers was more of a limited partnership than a true collaboration. HR professionals often designed talent management processes with little thought to how HR technology would be used to deploy the processes. Today it is hard to imagine rolling out a talent process in a large organization without extensive use of HR technology. Competency in HR technology is now a core part of talent management expertise. HR technology cannot be treated as an afterthought to talent management process design. It must be part of process design.

The second observation is how far HR technology has progressed. When I started working with HR technology, it was primarily viewed as a tool for automating administrative processes. HR technology was viewed as a tool to improve efficiency. Companies didn't think of it as a tool to improve the quality of talent decisions or enable better talent conversations. And the idea of having integrated HR technology platforms that spanned recruiting, development, performance management, and compensation was akin to science fiction.

The last observation is to note that despite all this progress, many of the major workforce challenges faced in the 1990s were the same challenges we face today. Technology may have given us the ability to hire people over the phone and collaborate with colleagues on the other side of the world in real time, but companies still struggle to create inclusive workforces and manage workforce transitions, and employees still complain about managers who don't know how to manage. I am optimistic that we now have HR technology available to help us meaningfully address these perennial challenges. But getting to this next level will require us to ask the right questions about HR technology applications. These are questions like, "How can we use HR technology to eliminate bad management behavior?" "Is there a way to use HR technology to conduct organizational restructuring so it does not negatively impact employee productivity and morale?" "How can HR technology help us eliminate gender inequity?" Only by asking these questions will we succeed in building the solutions needed to answer them.

We also need HR professionals with the skill sets required to address these sorts of questions. This starts with having people who have knowledge across multiple HR functions. We cannot build integrated HR solutions to address complex problems if HR continues to be run as silos of compensation, staffing, development, and learning professionals. Second, we need HR professionals who are well-versed in the capabilities of HR technology and who can effectively collaborate with HR technology developers to create integrated, comprehensive, cross-functional suites of tools that enable companies to address complex workforce problems. This may seem like a lofty goal. But real progress requires real ambition. If we don't think differently, then we won't act differently. The opportunity has arrived for us to use HR technology to radically improve the world of work, but it is up to us to seize it.

Chapter 48

Effective Talent Management Systems

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One thing I teach is that core competencies are the basis for success or failure.

—*Mark Cohen, former chief executive of Sears Canada and professor at Columbia Business School*

A POWERFUL "BIG DATA" TALENT MANAGEMENT SYSTEM HELPS LINE MANAGERS AND human resources professionals make better decisions faster by increasing their effectiveness in executing programs involving the acquisition, retention, enhancement, positioning, and rewarding of high-quality employees. This chapter introduces readers to such a system—TalentReservoir®.

Today, there are dozens of companies that offer talent management software ranging from single programs that can be controlled by a small group of HR professionals to complex systems with multiple levels of security and integration. At its core four elements play a central part in the TalentReservoir® system. They should be requirements for any talent management system. The four elements are:

1. *Integrated management and organization planning.* Core to TalentReservoir® and essential to all talent management is the integration of day-to-day employee management tools with long-term organizational planning. This includes support for management decision making at all levels of the organization, including monitoring employee performance and providing guidance on improvement. The aggregation of employee data utilized for decision making throughout all levels of management is the foundation for the big data suite of analytical resources used for assessing the entire organization and providing guidance on identification of critical team members as well as succession planning.
2. *Easy-to-use user interface.* A successful system should be easy to use for managers with simple input forms and reports for individual assessment and informational graphics for explaining organization-wide metrics that are easy to read and explain.
3. *Scalable with clear security protocols.* Strong talent management systems are meant to be used at every level of the organization from lower-level management to the CEO. This requires powerful security firewalls and a clear policy for accessible information.
4. *Tools that will support both managers and employees.* Managers will be providing the bulk of the information that makes the system effective. Managers and employees will also be most reliant on the information in the system. To support them constantly, updatable information containing management best practices, training support, and even books and support publications should be key elements of the program.

1. Integrated Management and Organization Planning

An organization's ability to learn, and translate that learning into action rapidly, is the ultimate competitive advantage.

—Jack Welch

There are four fundamental areas in TalentReservoir® that are essential to fully maximizing human potential in organizations. Two of these are oriented toward the managers at every level in the organization and two are focused on the compilation of all employee information. These data that enables leaders to make talent-based decisions that affect the organization.

Employee Data Collection

Data collection tools focusing on employee data are the basic building block of the program that supports every other analytical methodology. It is a survey of the competencies of all employees as well as their overall performance and potential in the organization. For proper analysis this survey should have a similar data-entry approach for employees at every level of the organization. Core competencies should remain consistent, with attributes changing based on level inside the organization. Performance and potential rating metrics should also remain consistent.

Employee Feedback

In addition to robust evaluative surveys, the main tool for line managers is a database of potential actions for addressing each individual employee's needs. This begins with personal advisement that can also be aggregated to form best practices that can be utilized in management training. In addition, the system should contain a continuously updated collection of training materials from books and publications. These programs should be altered continuously based on employee feedback.

The Dashboard

An analytical dashboard is the senior executive's main tool for reviewing the entire health of the organization. The dashboard takes the aggregation of vast quantities of data and turns it into charts adapted to organization needs.

Succession and Recruitment Planning

A system for reviewing succession plans in the organization as well as determining the best candidates for new positions is a crucial ingredient to the organizational decision-making process. A succession system translates the analytical dashboard into a vehicle for action by providing guidance on promotion, cultivation of stars, and recruitment in areas of weakness.

2. An Easy-to-Use User Interface

In business, the idea of measuring what you are doing, picking the measurements that count like customer satisfaction and performance ... you thrive on that.

—Bill Gates

The success of TalentReservoir® comes from the simplicity of the user interface. All the elements of data collection are limited to one screen, and data analysis is provided on a dashboard with fun, easy-to-read graphics. As organizations have grown more complex, the need for straightforward systems has only grown more important. The most effective simple systems contain the following interface elements:

One-Screen Data Collection

Managers often dislike filling out comprehensive surveys. The more information that is required, the less likely they are to complete them clearly and completely. Talent-Reservoir® is built around stripping away extraneous information to focus only on the core elements of talent management. All data to be collected can be seen on one screen. This increases the chances that the manager will be diligent in completing all required information concerning their employees.

Dashboard

The dashboard is the main online outlet for reviewing data at the organization-wide level. Organizations with powerful talent management systems utilize their information dashboards almost daily to monitor performance and spot gaps. The dashboard is the most easily customizable part of talent management systems, and companies can also link the information to sales or operational data.

In TalentReservoir®, there are three crucial dashboard elements companies utilize most frequently. These are:

- *Organizational competence:* This output evaluates performance in competencies across the organization and can be divided by experience or division. It allows senior executives to see competency strengths and weaknesses across the organization.
- *Talent barometer:* A review of the complete organization by creating an algorithm that combines performance, potential, and competency data. The barometer can also be adapted to include outside metrics like sales data. The barometer allows for quick insights into organization health.
- *Bench strength summary:* This is a summary of leading candidates for higher positions inside the organization and is seen by managers as the best approach to internal organization recruitment, particularly across divisions.

3. Scalable with Clear Security Protocols

If you think technology can solve your security problems, then you don't understand the problems and you don't understand the technology.

—*Bruce Schneier*

Talent management systems have a conundrum that must be resolved in order for them to be successful inside the organization. In order to be used effectively, managers and executives at every level must have access to information related to their work. On the other hand, the information involved is often the most sensitive and could cause harm if too much access is provided. TalentReservoir® originally was developed using internal databases where a small group of HR professionals controlled the inflow and outflow of information.

Once the software migrated online, a security philosophy needed to be developed to balance security and transparency:

- *Protocol manual:* Before implementing software, the organization should have a clear understanding of security protocols. With TalentReservoir® most organizations develop two-tier security approaches with managers having access only to their own subordinates and the managers working beneath them, and members of the HR and executive staff have access to organization-wide information. By establishing this clear standard early, the organization is able to maintain a security approach that can be adapted when software changes or is updated.
- *Personal and organization information:* Another important consideration is understanding when individual names are needed and when abstract organization information is most important. A number of organizations keep personal information only in the hands of HR staff and distribute this information when specific reports are requested. When managers are given access to personal information, it is often included with strict security passwords keyed to the individual.

4. Tools that Will Support Both Managers and Employees

No one learns as much about a subject as one who is forced to teach it.

—*Peter Drucker*

One of the key areas of organizational success with talent management systems is continuous feedback on the training of employees. Training advisement tools must stay relevant and support consistent input from management. Powerful training support should contain the following attributes:

- *Training linked to competencies:* Training and guidance in talent management systems need to be flexible and adaptable to the needs of employees. This requires that the books, courses, and support be linked to actual competency and performance scores. High performers would be steered to higher-level training programs and underperformers may require more remedial training.
- *Archive record:* Managers should be able to review past scores and comments to be able to assess the success of previous advice and training recommendations. Archiving will also allow for discussions on training recommendation effectiveness.
- *Training range:* Effective training recommendations should include a variety of approaches from coaching advice, to books, to seminars, to longer courses. Companies should keep this database of sources up to date and refined so that it will remain a trusted source for managers.

Complexity and Fear of Implementation

Companies faced with the complex requirements of talent management systems are often intimidated. Many potential projects never start because of fear of advanced software systems or extensive input requirements. Successful implementation often requires staging the talent management system into a series of initiatives starting with the development of the data collection tool, followed by the design of reports and information dashboards. A phased approach also facilitates support among managers and HR staff tasked with the initial data collection tools.

Chapter 49

Realizing the Value of Big Data for Talent Management

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ORGANIZATIONS COLLECT, CONNECT, ANALYZE, UTILIZE, AND STORE LARGE QUANTITIES of data pertinent to their business and employees. This gives them a foundation for integrating multiple data elements into a smaller set of cogent decision points. These decisions pertain to the design, implementation, and audit of the effectiveness of talent management strategies. Technology makes this process more accurate, easier, faster, and cheaper than ever before. This technological phenomenon has been titled "big data."

To many talent management practitioners, big data remains ambiguous, confusing, and intimidating. However, successful practitioners will find a way to realize value from their big data capabilities. The purpose of this chapter, therefore, is to help practitioners realize the value of big data at a level appropriate to their company. It is organized into five parts:

1. Starting with foundational knowledge
2. Selecting a level of big data
3. Identifying the competencies of the big data practitioners
4. Identifying talent management value-creating outcomes
5. Creating a big data program

Foundational Knowledge

A foundational knowledge is necessary to create and implement an approach to collecting, connecting, analyzing, utilizing, and storing big data. This foundational knowledge includes a definition and a set of criteria.

Definition

"Big talent management data" involves the integration of data elements from different disciplines, using a variety of analytical tools and technologies, to identify and address important human resource issues.

Big Data Criteria

The six criteria below are mandatory components of a "big talent management data" project.

Outcomes

Before embarking on big data, practitioners should clearly define the issues they seek to address. Collectively these issues seek to answer the question, "Does the organization's talent management strategy align with its business strategies and creed?"

Examples of specific issues are:

- Does the organization have its targeted percentage of high potentials?
- Are employee performance appraisal ratings consistent with objective methods for determining organizational performance?

- Do the ratings on the value-oriented competencies match the results of surveys that measure the strength of the organization's creed, employer brand, and engagement level?
- Does the organization have at least one backup for each key position who is at "keeper" (exceed job expectations) level or above?
- Is the organization addressing the issue of surpluses (positions with more than one replacement for an incumbent)? While ostensibly a positive result of the talent management process, it can be a potential source of turnover and morale problems if a nonpromotable incumbent blocks replacements and/or there is no realistic way most of the promotable replacements can advance.
- Is the organization addressing the issue of voids (positions without a qualified backup)? Once voids are identified and confirmed, the organization must be prepared to recruit externally.
- What is the plan for dealing with nonpromotable incumbents standing in the path of one or more high-potential or promotable employees (blockages)? Blockages are potential contributors to turnover in strategic talent groups.
- What is the plan for dealing with problem employees? Those who are not meeting job expectations (measured achievement or competency proficiency). Should they be given the opportunity to improve, receive remedial action, or be terminated?
- Are TREADs (training, rewards, education, assignments, and development) being allocated based on employees' current and potential contribution to the organization?
- Is the overall bench strength sufficient to meet organization needs?

Types of Data
Once outcomes are defined, the data necessary to address them must be identified. The data required will typically come from documented business strategies, actual performance, talent management strategies, practices and programs, and culture surveys.

Quality
Once big data sources are identified their accuracy, consistency, and comprehensives for identifying and/or solving targeted talent management issues and solutions, like those above, are determined.

Timeliness
After relevant data are identified, and the quality is ensured, they are harvested and made available in the time frame necessary for identifying and/or solving active and future issues. Time frames range from periodic to real time.

Worth
After determining whether their data meet the criteria listed above, practitioners must determine whether engaging in a big data process is worth its cost and time of implementation, or decide if the organization could address talent management issues with simpler processes.

Credibility
In order to implement solutions based on big data, an organization must ensure that its employees trust and believe in its capabilities for addressing talent management issues. This means that an organization must have a formalized and timely employee communications program that honestly presents the role of data in talent management decisions.

Level of Big Data Selection
A foundational understanding of big data enables an organization to classify its current and potential level of implementation. Figure 49.1 provides practitioners with a way to categorize their current and potential level of usage of big data at various levels of problem solving in four stages and six levels. Given the distribution of organization size in the United States, it is likely that the vast majority will be at stage II.

Stage / Level	Organization Size by Employees	Outcome Level (See definitions below)	Data Types	Quality (Level of Scrutiny)	Timeliness	Worth to Organization (7 point scale, 7= highest)
Stage I	Small Up to 100	Descriptive	Simple business and pay data	High	Periodic	4
Stage II	Medium 100–500	Analytical	Basic business, pay and talent management, reporting	High	Scheduled	5
Stage III	Large 500–1000	Predictive	Medium business strategy and reporting, pay strategy and salary administration, talent management and culture	Very High	Real Time	6
Stage IV	Very Large 1000+	Prescriptive	Advanced business strategy and reporting, pay strategy and salary administration, talent management and culture	Extensive	Real Time	7

Definitions for Outcome Levels

Descriptive
Descriptive big data involves the systematic approach to identifying, collecting, organizing, and analyzing high-quality business and talent management data to unearth valuable insights that help guide talent management decisions and actions.

Analytical
Analytic big data involves the blending and integration of business, talent management, and talent management data into cogent and useful pieces of information that can be used to make valid talent management decisions.

Predictive
Predictive big data is used to make more effective talent management decisions through the extensive mining of all relevant data to create paradigms that provide a clear understanding of the relationship between organization strategies and practices and current and future outcomes.

Prescriptive
Prescriptive big data is complex and sophisticated. It draws on historically valid paradigms. It enables the organization to make highly accurate decisions involving specific actions necessary to achieve desired short and long outcomes.

Figure 49.1 Big Data Usage at Four Levels and Six Stages of Organization Growth

Big Data Practitioners' Competencies Identification

In order to implement a big talent management data program, organizations require practitioners with specific competencies geared to their target stage of implementation. Figure 49.2 presents three levels of ten competencies for big data practitioners. They can serve as a useful starting point for developing big data position descriptions, incumbent requirements, and performance standards.

Competency / Level	Level III Sr. Professional	Level II Professional	Level I Analyst
Analysis and Creativity	Identifies important issues and provides significant value-added solutions to improve processes, methods, and systems usually at a strategic level.	Develops fundamental analyses and conclusions regarding key organization issues involving the improvement of organization operating processes, methods, and systems.	Accurately and efficiently collects, tabulates, and summarizes data and information pertinent to improving the content of the program in accordance with organization needs.
Organization Focus	Demonstrates ability to know and respond effectively to a variety of organization perspectives and needs. Influences organization positively to take constructive actions to address complex big data strategic issues.	Establishes and maintains strong continuous relations with organization based on credible ability to constructively address basic big data issues.	Develops positive working relationship with organization during big data projects through credibly addressing organization needs.
Communications (Oral)	Is articulate and persuasive in all forms of oral presentation. Gains high level of organization support through strong professional and credible demeanor.	Provides clear, sound, and cogent presentations reflecting knowledge of how big data can address specific organization needs.	Accurately and effectively presents big data in a clear, persuasive, and organization-engaging manner.
Communications (Written)	Delivers high level of well-conceived prose communications that clearly describe issues, approaches, and recommendations for complex as well as simple content.	Writes persuasive, logical communications in both narrative and presentation styles that are readily understandable and credible to the organization.	Writes clear, concise, and grammatically correct and descriptive reports and/or other material required by big data program.
Fact Finding	Collects, analyzes, and accurately interprets organization data of a high degree of clarity and complexity.	Understands and uses the type of data required to analyze organization issues.	Provides simple, accurate, and speedy fact finding in accordance with established program, processes, and procedures.
Industry Knowledge	Recognized as having a substantial knowledge of organization's industry and business dynamics.	Recognized as having sound knowledge of organization's industry and business dynamics.	Has a basic knowledge of organization's industry and business dynamics.
Leadership	Envisions solutions to complex issues. Uses knowledge of people, systems, and operations to gain support for big data programs.	Envisions issues and outcomes, and consistently demonstrates and communicates the highest professional standards and expertise to gain support for implementing solutions.	Envisions issues, outcomes, and simple solutions. Demonstrates high professional, personal, and work behaviors that enable strong acceptance of applicable programs.
Project Results	Sets high goals and performance standards and develops, implements, and monitors big project plans to achieve goals.	Assembles and implements big data basic project plan.	Delivers high-quality and timely programs meeting expectations.
Technical Knowledge	Recognized as an expert on big data.	Recognized as having strong knowledge of big data.	Recognized as having a sound basic knowledge of big data.
Value Added	Identifies and develops new and/or innovative solutions to address significant organizational needs. Develops paradigms that help make accurate decisions involving specific actions necessary to achieve desired outcomes now and in the future.	Identifies and presents major issues or areas of concern to make more effective talent management decisions through the extensive mining of all relevant data and the creation of paradigms that provide a clear understanding of the relationship between organization strategies and practices and current outcomes.	Provides recommendations for adaptations to big data programs.

Figure 49.2 Big Data Practitioners

Value-Creating Outcomes

Regardless of each stage of solution development, the transformative power of big data for talent management practitioners lies in identifying and managing the relationship between pay and three basic key activities and value-creating outcomes. These are business results, culture, and talent management.

The following information provides some basic examples of how practitioners can create value by linking big data to specific outcomes.

Business

Do individual and group performance appraisals and employee pay reflect the actual levels of competitive business performance?

- *Big data needs:* Competitive business performance measures, performance appraisals, competitive level of employee pay.
- *Output:* Correlation between level of employee performance and pay and competitive business performance to enable the continual alignment of measurement, assessment, and actual results.

Culture

Do organization practices reinforce the type of culture described in its creed? Typically a creed will include provision for elements such as innovation, creativity, engagement, leadership, motivation, and fairness.

- *Big data needs:* Culture questionnaire focusing on talent management practices including employee performance appraisal, replacement, and backup status, career advancement and competencies, demographics, and core talent management programs (acquisition, enrichment, compensation, positioning).
- *Output:* Multiple correlations that identify, and help enhance, employee perception of talent management practices including employee performance appraisal, career advancement and competencies, demographics, and core programs (acquisition, enrichment, compensation, positioning).

Talent management

Does the talent management system support the talent management strategy?

- *Big data needs*: A talent management program that includes an administrative system based on a clear philosophy, strategy, and process that covers the assessment of employee performance, potential, replacement and backup status, career targets, and competencies. The system must link every talent management action to relevant elements of the talent management program and track all talent management activities including those affecting new hires, promotions, training, education, development, assignments, and separations.
- *Output*: Multiple correlations that identify factors associated with successful acquisition, internal mobility, and turnover in critical employee groups.

Outcomes

Output from the big data analyses such as those listed above will lead big data practitioners to be sure of positive outcomes such as the following:

1. Organization-wide employee evaluation and total salary increases are based on performance appraisal systems correlated with individual and unit performance.
2. Talent management actions are appropriately applied to critical groups (high performers, high potentials, backups for key positions, and employees with demonstrated high levels of key competencies).

Big Data Program Creation

The creation of a talent management big data program begins with a written statement of the principles that guide the direction and actions of the organization. This organizational blueprint contains:

- Organizational strategies encompassing long-term plans for maximizing value based on the institution's vision, philosophy, values, mission, goals, and priorities. It includes success measures for each strategy.
- Organization creed that guides institutional behaviors in implementing strategies toward stakeholders including customers, employees, vendors, government, and media. Values typically include ethics, beliefs, institutional competencies, and behaviors.

- Talent management strategies that describe the types of people in whom the organization will invest based on their values and current and potential contribution to organizational success. People with high achievement, replacements for key positions, high potentials, and critical competency employees are usually those receiving the highest talent management package.
- Talent management strategies that indicate how an organization will allocate employee pay based on its business and talent management strategy.

Each component of the blueprint should identify the specific outcomes associated with each strategy including the data required to identify and analyze its outcomes. Examples of outcomes are cited in this chapter.

Once a blueprint is established and data are collected for each outcome, the results can be analyzed. The focus is on the degree to which actual outcomes are consistent with targeted outcomes. This will enable practitioners to adjust their talent management and related policies, processes, and/or strategies so they better achieve targeted outcomes. This approach to big talent management data provides for the integration of data elements from different disciplines using a variety of analytical tools and technologies to identify and address important human resources issues.

Summary

In this chapter, we highlight the fact that organizations collect, connect, analyze, utilize, and store large quantities of data pertinent to their business and employees. This process gives them a foundation for integrating multiple data elements into a smaller set of cogent decision points. These decisions pertain to the design, implementation, and audit of the effectiveness of talent management strategies. Technology helps practitioners make this process more accurate, easier, faster, and cheaper than ever before. This chapter is designed to help the practitioner realize the value of big data at a level appropriate to his or her organization by adhering to the following five-step process:

1. Start with a foundational knowledge.
2. Select a level of big data.
3. Identify the competencies of the big data practitioners associated with your level of big data.
4. Identify talent management value-creating outcomes.
5. Create a big data program.

Part VII

Talent Management Competencies for Leaders and Professionals

Chapter 50

A Competency-Driven Approach to Talent Management Optimization

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Introduction

Human resource management (HRM) and talent management (TM) are interesting bedfellows, if we can call them that. Ask some people, and TM is simply a subset of the comprehensive world of HRM, including all the things that, in an ideal world, HRM should be responsible for.[1] Ask others, and TM is a broader function within an organization, one that is the responsibility of all leaders and managers.[2] The reality is probably a combination of the two—TM is both an important function of HRM and the responsibility of all leaders and managers.[3,4]

Mathis, Jackson, Valentine, and Meglich define HRM as "designing formal systems in an organization to manage human talent for accomplishing organizational goals."[5] Although the definition of TM remains elusive, it is probably safe to say that TM focuses on "processes, programs, and cultural norms in an organization designed to attract, develop, deploy, and retain talent to achieve strategic objectives and meet future business needs."[6] As can be seen from these two definitions, HRM and TM have close parallels.

Although the ownership of TM across the organization often falls under the umbrella of broader strategic HRM, as reflected in the definition of Mathis and colleagues, the responsibility for various aspects of TM in many organizations is often the responsibility of anyone in a leadership or managerial role.[7] Figure 50.1 highlights where the roles of human resource (HR) and TM departments and other organizational leaders can often converge or diverge regarding the management of organizational talent.

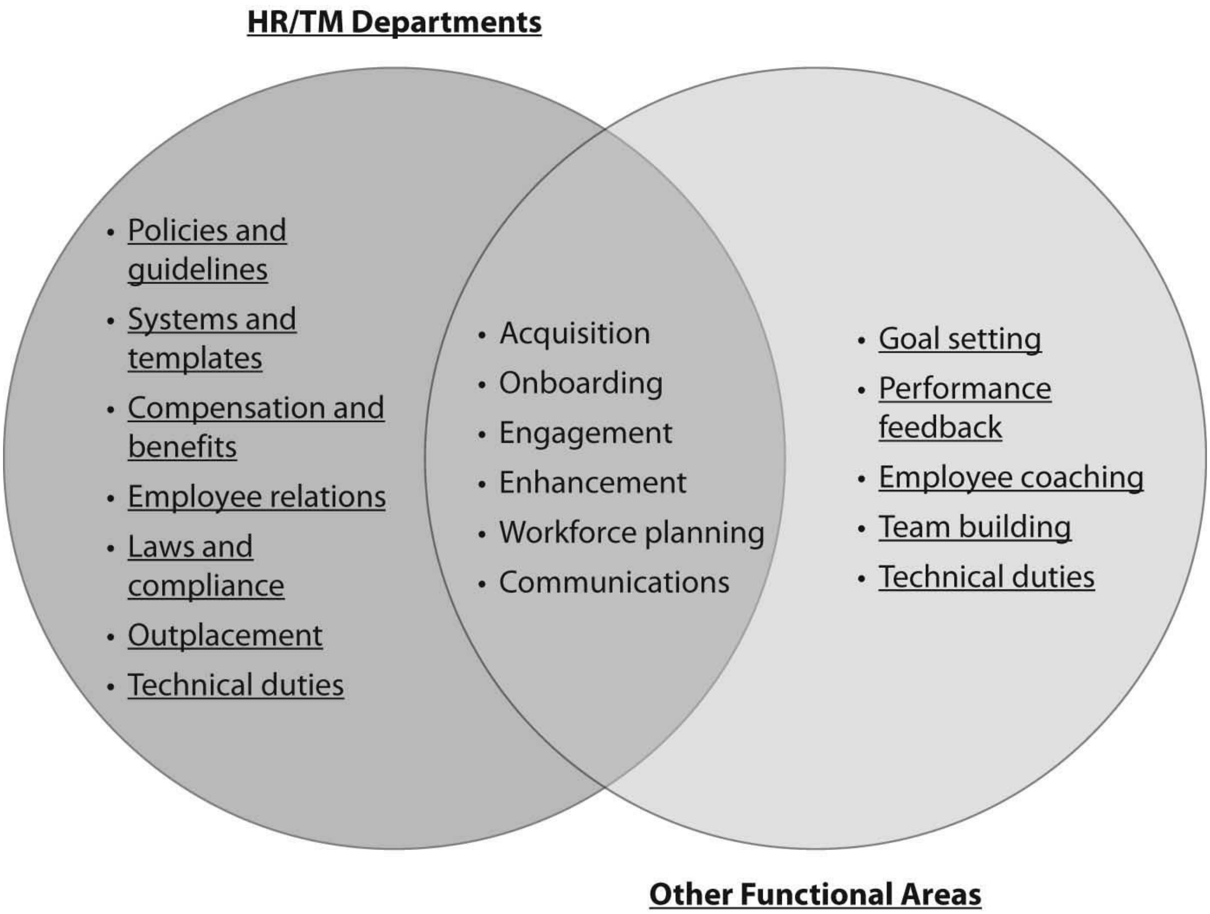

Figure 50.1 Talent Management Overlap Across Organizational Functions

When and why the roles converge/diverge are the result of strategy, cross-department coordination, resources, industry, and organizational culture and history. When both HR/TM and organizational leaders share the responsibility, the division typically rests between the more technical, policy, business partner, and centralization role of HR, and the more individualized application of TM that occurs between leaders and their direct and indirect reports. However, when the HR/TM departments and leaders share the responsibility and work together collaboratively in implementing talent solutions, the organization is in a better position to achieve success and reduce risk.[8]

This chapter focuses on how the competencies critical for success as an HR professional help execute TM across the organization, whether as an owner of TM or in support of others in the organization who primarily implement TM. Because of variance in application of TM across organizational functions, except where clear distinction between roles exists, we refer to anyone owning or implementing TM as a "TM practitioner."

In this chapter, we provide a brief overview of HR competencies and competency models, focusing specifically on the Society for Human Resource Management (SHRM) competency model. We then describe how the competencies requisite for success as an HR professional also ensure the capability to guide, lead, evaluate, and carry out TM within the organization. We then discuss talent trends that TM practitioners must prepare for and the necessary competencies for success.

What Are HR Competencies and Competency Models?

Competencies and competency models were introduced into the business world more than four decades ago.[9, 10, 11] As such, the concept and use of competencies are familiar not only to HR and TM professionals, but also to most business leaders, as a recent study conducted by SHRM indicates.[12]

A *competency* is a knowledge, skill, ability, and other characteristic (e.g., traits, mindsets, attitudes) (KSAOs), or a group of KSAOs, which, when applied in the appropriate roles, helps to achieve desired results.[13] Competencies contribute to individual exemplary performance that increases the likelihood of a positive impact on organizational outcomes.[14, 15] Competencies help simplify the process of tying concrete examples of performance expectations to organizational or professional missions and goals.[16] For example, talent practitioners can link a behavior such as "demonstrates acceptance of colleagues from different cultures" (an indicator of performance aligned to the global and cultural effectiveness competency identified by SHRM) to an overarching strategic goal like, "Create a diverse and inclusive work culture that fosters innovation and advances global competitiveness."

HR competencies are those that are specific to the HR profession—in other words, the individual or sets of KSAOs that help those in HR roles achieve business results.[17] For example, the business acumen competency is defined within the SHRM competency model, as what is "needed to understand the organization's operations, functions, and external environment, and to apply direction of the organization."[18] Competencies such as business acumen distinguish high-performing HR professionals from their less-effective counterparts. SHRM research indicates that this competency model is considered by both HR professionals and non-HR leaders alike as critical for success in the HR role.[19]

A *competency model* refers to a collection of competencies that are needed for effective job performance.[20] The individual KSAOs or combinations of KSAOs are the competencies, and the set of competencies is typically referred to as the "competency model." Thus, an HR competency model reflects the set of competencies that define success for professionals in HR. In addition, competency models typically include detailed information such as key behaviors and standards of proficiency across different levels of job experience or expertise.[21, 22] Competencies help reduce an often-unwieldy number of KSAOs needed for successful performance into a manageable number that can help guide performance and development.

Competencies serve as a foundational component of human capital and TM systems. They play an important role in the selection, training, and appraisal of HR and other professionals. They are also used to create structures that align talent needs with organizational strategy. An organization might also use competencies to develop performance assessments for existing employees, behavioral interviews for hiring new employees, and selection criteria for succession planning. Competencies are therefore valuable not only for the HR profession and the management of talent in the HR field but also for TM across organizations in general. But how do HR competencies help in performing effective TM?

What Is the SHRM Competency Model?

As part of its mission, SHRM continually conducts research and generates thought leadership aimed at identifying what makes an HR professional successful and how HR professionals can meet their career goals while effectively serving the objectives of their organizations. One area in which SHRM serves this mission is HR competencies.

One of several competency models in use across the HR profession,[23] the comprehensive SHRM competency model is based on input from more than 33,000 HR professionals around the globe and, consistent with best practice, is updated every three to seven years. SHRM conducts rigorous studies to validate inferences regarding the content accuracy and relevance of the SHRM competency model to the HR profession, including a content validation study,[24] criterion validation study,[25] and practice analysis involving HR professionals across a wide variety of career levels, roles, industries, and geographic locations. SHRM developed the model to:

- Clarify for HR professionals what they need to know and do to succeed.
- Provide a foundation for the development of HR competency assessments and educational tools.
- Communicate to others outside HR what the profession entails.

The competency model identifies nine competencies critical to success in the field of HR, organized into four clusters (see Figure 50.2).[26] As a complement to the more general competency model, for the purposes of robust professional development and assessment resources for the HR profession, SHRM created a parallel document, the *SHRM Body of Competency & Knowledge (BoCK)*™. These two manifestations of the competencies necessary for success in HR are fundamentally the same, and for the sake of brevity here will be referred to as the SHRM competency model.

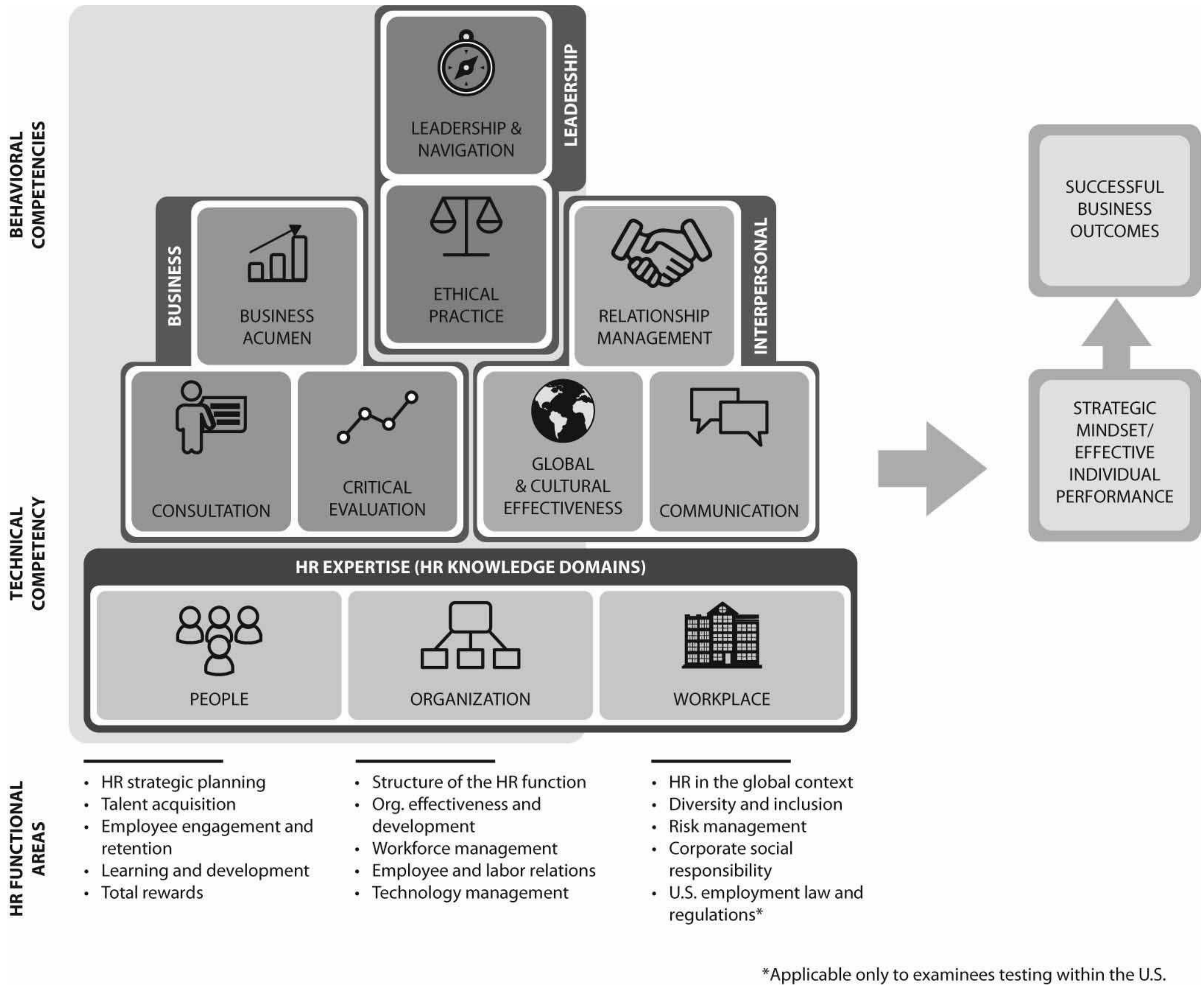

Figure 50.2 The SHRM BoCK

Although differences arise in the importance of the individual behaviors or knowledge required for HR professionals, all nine competencies are critical across HR jobs. In other words, regardless of industry, sector, geography, or other factors beyond career level, the same nine competencies included in the SHRM competency model reflect the most critical competencies for distinguishing between high- and low-performing HR professionals. The SHRM competency model provides details on specific behaviors that define proficiency at each stage of an HR professional's career, from early to late career. It helps guide HR professionals in what they should be doing in their current professional stage, as well as in what they will need to know and do to succeed at the next level.

One of the unique and valuable aspects of the SHRM competency model is that it includes behavioral competencies that, at the core, are not exclusive to the HR profession. Other than the technical competency of HR expertise, the competencies for being a successful business leader in any functional area in the organization are similar to those necessary for success as an HR professional, as reflected in the three additional competency clusters—business, leadership, and interpersonal.[27] Leaders should be expected to be adept at communicating; managing relationships; modeling and fostering ethical behavior; demonstrating business acumen; critically evaluating situations and data, making evidence-based decisions; functioning effectively in a global and culturally complex context; consulting with others in the organization in their area of expertise, leading others, and navigating in the organizational and business environments.

So, if the competencies required for success in HR are not all that different from what is required for success in any leadership role and TM can be viewed as a function of every organization leader, then it makes sense that the competencies necessary for success in HR are the same competencies necessary for success in managing talent in general.

What Competencies Are Included in the SHRM Competency Model?

As noted earlier, the competencies in the SHRM competency model are organized by cluster. They are leadership, business, interpersonal competencies, and HR expertise that are specific to the HR professional.

Leadership Cluster

The first is the leadership cluster. All HR and TM professionals, and essentially all leaders in an organizational setting, must display strong, strategic leadership, regardless of career level, experience level, or job functions. The leadership cluster is composed of the competencies of leadership and navigation and ethical practice, two competencies mandatory for effective leadership in any organization.

Leadership and navigation comprise one competency and reflects the KSAs necessary "to navigate the organization and accomplish HR goals, to create a compelling vision and mission for HR that aligns with the strategic direction and culture of the organization, to lead and promote organizational change, to manage the implementation and execution of HR initiatives, and to promote the role of HR as a key business partner." To be successful in leadership and navigation when practicing TM requires a fundamental understanding of related knowledge and principles, including:

- Leadership theories.
- People management techniques.
- Motivation theories.
- Influence and persuasion techniques.
- Trust- and relationship-building techniques.

As these key concepts show, a direct connection exists between the competency of leadership and navigation and the practices of TM.

SHRM research has demonstrated that *ethical practice* is the competency most vital to success in HR regardless of career level. The SHRM competency model defines ethical practice as "the KSAs needed to maintain high levels of personal and professional integrity, and to act as an ethical agent who promotes core values, integrity, and accountability throughout the organization."

Key concepts necessary for successful ethical practice in the TM realm include:

- Ethical business principles and practices.
- Anonymity, confidentiality, and privacy principles and policies.
- Codes of conduct.

Anyone practicing TM in an organization must have a solid understanding of these concepts as they pertain to the TM practitioner's organization and context.

Business Cluster

HR and TM practitioners, whether in the private or public sector, must be proficient in business to succeed through identifying, designing, implementing, and evaluating TM and other business solutions to meet organizational objectives. Three behavioral competencies make up the SHRM competency model business cluster: business acumen, critical evaluation, and consultation.

Successful TM in a business context requires proficiency in *business acumen* (defined earlier in this chapter). Although business acumen is more than just business knowledge, TM practitioners should know key concepts to help them succeed in mastering this competency, including:

- Business terms and concepts.
- Analysis and interpretation of business documents.
- Elements of a business case.
- Business intelligence techniques and tools.
- Financial analysis and methods for assessing business health.

Talent functions within the context of business, and the more TM practitioners know about that business, the better they will be able to apply TM, whether making talent decisions, understanding the talent landscape, or providing guidance and support to talent.

Critical evaluation is "the KSAs needed to collect and analyze qualitative and quantitative data, and to interpret and promote findings that evaluate HR initiatives and inform business decisions and recommendations." Because so much of TM requires the effective collection, use, and interpretation of talent-related data, practitioners need to build a foundational knowledge of the main concepts and tools used for critical evaluation, including:

- Survey and assessment tools.
- Sources of data.
- Basic concepts in statistics.
- Interpretation of data and charts.
- Using data to support a business.

SHRM defines *consultation* as "the KSAs needed to work with organizational stakeholders in evaluating business challenges and identifying opportunities for the design, implementation, and evaluation of change initiatives, and to build ongoing support for HR solutions that meet the changing needs of customers and the business." Effective consultants are highly skilled in what they do, and they also possess a level of knowledge that their clients do not have. Thus, it is important for TM practitioners who consult with their organization to have a solid foundation in the following:

- Organizational change management theories, models, and processes.
- Consulting processes and models, including the contribution of consulting to organizational systems and processes.
- Effective consulting techniques (e.g., understanding organizational culture, understanding areas and limits of one's own expertise, setting reasonable expectations, avoiding overpromising).
- Key components of successful client interactions (e.g., listening, empathy, communication, follow-up).

Interpersonal Cluster

Organizations are made up of people, so to be successful in an organization, interpersonal competencies are necessary. For TM practitioners, who not only must work with others in the organization but must help all departments work together more effectively, the interpersonal cluster—made up of relationship management, global and cultural effectiveness, and communication—is of even greater significance.

Managing talent requires the ability to manage relationships. Research suggests that one of the primary reasons employees leave their jobs is the quality of the relationship between a supervisor and the exiting employee.[28] *Relationship management* is "the KSAs needed to create and maintain a network of professional contacts within and outside of the organization, to build and maintain relationships, to work as an effective member of a team, and to manage conflict while supporting the organization."

Although relationship management (as well as the other competencies in the interpersonal cluster) is behavioral in nature, knowledge in a few key areas helps ensure success. These include:

- Types of conflict.
- Conflict resolution styles.
- Conflict resolution techniques.
- Negotiation, tactics, strategies, and styles.

Successful businesses need to look everywhere—globally, culturally, and demographically—for talent. TM practitioners who are unable to broaden their view of the potential talent pool fall behind those who unbiasedly recognize talent.[29] *Global and cultural effectiveness* reflect "the KSAs needed to value and consider the perspectives and backgrounds of all parties, to interact with others in a global context, and to promote a diverse and inclusive workplace."

Knowledge areas associated with global and cultural effectiveness that can help anyone practicing TM be successful include:

- Cultural intelligence.
- Cultural norms, values, and dimensions.
- Techniques for bridging individual differences and perceptions.
- Best practices for managing globally diverse workforces.
- Interactions and conflicts of professional and cultural values.

The SHRM competency model defines *communication* as "the KSAs needed to effectively craft and deliver concise and informative communications, to listen to and address the concerns of others, and to transfer and translate information from one level or unit of the organization to another."

Having a solid understanding of the following enhances effective communication:

- Elements of communication (e.g., source, sender, receiver, message feedback).
- General communication techniques.

- Communication techniques for specialized situations (e.g., giving feedback, facilitating focus groups, facilitating staff meetings).
- Communications media (e.g., phone, e-mail, face-to-face, report, presentation, social media).

HR Expertise

Technical knowledge is required to be effective in any profession. As the one technical competency included in the SHRM competency model, HR expertise falls within its own "cluster." Although concepts related to each of the behavioral competencies are listed above, certain areas of knowledge are specific to the practice of HR and TM. As such, *HR expertise* is the foundation for all HR practices, including those related to TM and is defined in the SHRM competency model as "the knowledge of principles, practices, and functions of effective HRM." The SHRM competency model breaks down HR expertise into the following 15 functional areas:

- Diversity and inclusion
- Employee engagement and retention
- Learning and development
- Organizational effectiveness and development
- Talent acquisition
- Total rewards
- Workforce management
- Technology management
- Employee and labor relations
- HR in the global context
- HR strategic planning
- U.S. employment law and regulations
- Risk management
- Structure of the HR function
- Corporate social responsibility

A basic understanding of, if not a mastery of, each of these functional areas is required to lead, support, or consult with other leaders in the organization on the effective and strategic use of TM. HR professionals working in and supporting the TM space will be unable to effectively perform each of the other eight behavioral competencies if they do not at least understand each of these functional areas.

How are Behavioral HR Competencies Important to TM?

HR competencies, such as those in the SHRM competency model, benefit TM practitioners in their day-to-day functions and enhance their careers.[30] In this section, we show how each of the eight behavioral HR competencies included in the SHRM competency model, organized by cluster, relate to the knowledge and behaviors necessary for success for any TM practitioner. In addition, we highlight how each of the three clusters aligns with the functional TM areas of talent acquisition, talent enhancement, talent mobility, and talent outplacement.

Leadership Competencies and TM

Leadership is central to the management and optimization of talent in organizations. Understanding the talent needed for organizational success is necessary to effectively lead organizational change, define and implement a mission aligned with organizational strategy and culture, and execute TM initiatives. It also requires a solid understanding and ability to attract, engage, manage, and retain that talent, and to guide others in the organization in executing the talent strategy. TM practitioners need a systems perspective to understand the broader talent landscape in the organization and how leaders look to find, foster, and facilitate talent.

When it comes to TM, applying the leadership competency of ethical practice is critical. TM practitioners' responsibility is both to serve as the model for ethical behavior in the organization and to monitor the organization and raise red flags about possible risks. Ethical practice helps ensure that an organization's talent processes and decisions are fair to protected groups as well as legally defensible. Not only is proficiency in the ethical practice competency important from a legal and socially responsible level, but it can also boost TM success when talented candidates and employees see the process as fair. See Table 50.1 for additional examples of leadership behaviors applied to the practice of TM.

Talent Management Area	Competency	Leadership Behaviors Applied to TM
Talent Acquisition	Leadership and navigation	Creating a strong and attractive employment brand by fostering employee engagement and a positive organizational culture
	Ethical practice	Engineering bias out of the process for selecting new talent for the organization
Talent Enhancement	Leadership and navigation	Monitoring talent gaps and identifying best practices for developing talent, such as coaching and mentoring
	Ethical practice	When facilitating conflict discussions between managers and employees, taking an objective, third-party view of the situation aligned with organizational policy
Talent Mobility	Leadership and navigation	Applying a systems perspective to see where possible talent mobility options are aligned with the mission and strategy of the organization
	Ethical practice	Assisting with transfers for global assignments and taking different cultural and political factors into account
Talent Outplacement	Leadership and navigation	Understanding the competitive and strategic advantage to building strong relationships with outplaced talent
	Ethical practice	When outplacing talent during a reduction in the workforce, ensuring that appropriate security and data privacy policies and controls are in place

Table 50.1 Leadership Behaviors as Applied to Talent Management

Business Competencies and TM

The purpose of talent management is to optimize the collective talent to achieve business objectives. Thus, neither talent nor talent management can be separated from the business context. Proficiency in business-related competencies while implementing TM in an organization is therefore crucial. (See Table 50.2 for other examples of how business competencies apply to TM.)

Talent Management Area	Competency	Business Behaviors Applied to TM
Talent Acquisition	Business acumen	Applying knowledge and understanding of the broader organization and strategy to answer talent's questions about employment opportunities
	Critical evaluation	Gathering and analyzing external and internal quantitative data on the talent marketplace for areas where current and future talent gaps now exist or are expected to exist
	Consultation	Assisting others who lead talent acquisition screening efforts by identifying key competencies, skills, and expertise in technical areas where talent assessment is underway
Talent Enhancement	Business acumen	Including business language, processes, systems, and technology to enhance the relevance of talent enhancement programs and increase transfer of learning
	Critical evaluation	Gathering qualitative feedback regarding participants' perceived effectiveness of internal leadership development programs
	Consultation	Coaching and consulting with talent that is seeking development in specific areas of a skills gap
Talent Mobility	Business acumen	Seeing where temporary assignments in the organization can provide career development opportunities while facilitating cross-departmental learning and innovation
	Critical evaluation	Conducting interviews and assessments to examine the motivation, readiness, and qualifications for a pool of candidates for a high-profile mobility opportunity
	Consultation	Offering consulting guidance to talent considering cross-organizational moves into areas where the talent practitioner has experience or knowledge
Talent Outplacement	Business acumen	Using outplacement opportunities to enhance competitive position in key strategic lines of the business
	Critical evaluation	Evaluating the quality and value-add of external talent outplacement vendors
	Consultation	Offering consultation to talent on outplacement opportunities where the talent practitioner has experience

Table 50.2 Business Behaviors as Applied to Talent Management

Without a clear sense of the business operations, functions, and external environment, TM practitioners trying to implement effective TM in an organization are unable to provide accurate, business-oriented definitions for each job, and their ability to define, find, and retain talent is impaired. As a result, talent acquisition, performance management, succession planning, and other areas of TM suffer. TM practitioners who understand and can show other stakeholders the strategic value of their TM approach are destined for greater individual and organization success. One of the keys to gaining stakeholder buy-in is being able to understand and speak the language of the other party.[31] The more business acumen that talent practitioners can display, the better able they will be able to influence the talent strategy of the organization in positive ways, thus leading to greater success for the organization.

From a talent perspective, critical evaluation as a business competency is an invaluable tool. Determining whether someone is right for the job takes critical evaluation skills. Those skills are also necessary to determine whether the approaches used for identifying, selecting, onboarding, developing, and off-boarding talent are producing the expected return on investment (ROI) for the organization. Critical evaluation goes beyond that to include understanding the findings of the ROI analysis and using them to make informed talent-related decisions that align with the business strategy and drive business success.

Critical evaluation, and the tools for gathering and understanding data, is a fundamental competency for talent acquisition. Once a need to fill a position has been identified—whether a new position, a vacant position, or a position that may become vacant—effective acquisition of talent to fill the position requires a critical evaluation of all the factors at play. This includes understanding such variables as basic qualifications, essential functions, culture of the organization and team, strategy and future direction for the role, and assessment methods most effective and legally defensible for making hiring decisions. HR professionals must then review these and other variables (i.e., critically evaluate the hiring process) to make decisions about how to source, recruit, screen, and select the best candidates for the role, or to advise others involved in the process about the most effective steps.

In implementing TM, many HR professionals find themselves playing the role of consultant in the organization, providing either solicited or unsolicited guidance to those who do not have the same expertise.[32] In leading the effective execution of TM across the entire organization, consultation plays a principal role in helping others in the organization gain an understanding of what does and does not work effectively to attract, retain, develop, and off-board talent. TM practitioners who are particularly good at what they do can help ensure that the rest of the organization does what it can to drive organizational success based on the best talent possible.

Interpersonal Competencies and TM

As noted earlier, TM practitioners must work with others in the organization but also help the organization work more collaboratively and effectively. Thus, the interpersonal cluster of competencies is imperative for the effective use of TM in an organization.

Effective relationship management helps strengthen the bond between employees and their leadership and resolve potential conflicts among talented employees, many of whom are highly confident in their expertise and opinions.[33] In addition, effective relationship management between a leader and talent can be a powerful recruiting tool; talented employees who like working for their bosses will be more likely to recommend the organization to talented prospective candidates.[34] Effective relationship management helps ensure that individuals feel that they are being treated fairly and ethically and that relationships with both departing and retained talent remain strong.[35]

Inclusively viewing the perspectives and backgrounds of everyone and taking a global view of the business context is important for acquiring, assessing, moving, and developing talent. It is also important for being able to take a broader strategic, systemic view of the business, including seeing how diverse talent fits into the short- and long-term business plans and how both internal and external talent can be leveraged to fulfill the business mission. For example, an organization that creates a more diverse employee population expands the range of employee perspectives and thus increases the chance of connecting with and attracting a diversified customer base.

Communication is a competency that underlies everything we as humans do, which explains its frequent inclusion in corporate competency models.[36] One of the latest trends in HR is to build HR capacity to think and act like marketers, and marketing is all about communication.[37] From a talent perspective, TM practitioners have a major role in explaining and clarifying talent-related decisions. They must understand the talent strategy and vision and communicate how the hiring strategy aligns with that vision. They must then translate the talent strategy into a set of recruiting and screening processes. In addition, they must communicate with both the internal and external labor pool, explaining the position clearly to attract candidates whose talent matches the perceived need. Finally, they must effectively listen to questions from current employees about the position and communicate why an employee may or may not be considered a fit for the role. This provides additional applications of interpersonal behaviors in TM.

What Trends Will Affect the Relationship Between TM and HR Competencies?

As TM and HR continue to evolve, how will the importance of and impact on HR competencies in relation to TM practice change simultaneously? Five specific macrotrends that have relevance to this ongoing relationship[38] are shown in Figure 50.3.

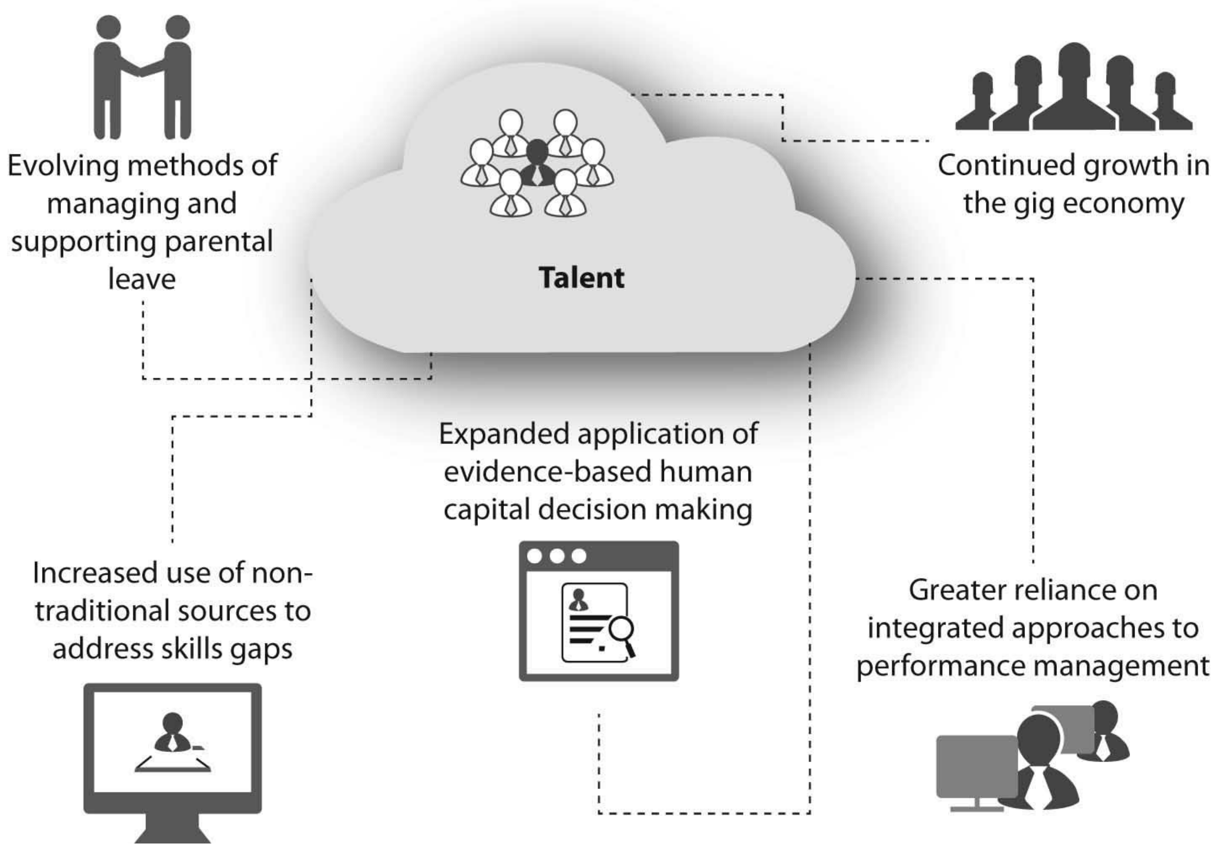

Figure 50.3 Macrotrends in Talent

The growth of the gig economy is a trend that does not appear to be going away anytime soon.[39] The result is that HR and TM practitioners need to have a solid understanding of how the concept of talent and its strategically aligned management fit within the broader system of a gig workforce. Thus, TM practitioners need to understand the laws and regulations related to gig workers, know the various ways in which to classify gig and nongig employees, and develop skill in orienting and socializing gig workers. To succeed, TM practitioners need to use critical evaluation and leadership and navigation to assess talent in the gig workforce, optimize that talent, and align the gig workforce strategy with the broader HR and organizational strategies.

A driver (and possible consequence) of the increased gig workforce is the growing skills gap. In association with a strengthened employment outlook, this skills gap has created an even greater competition for talent. According to a 2015 SHRM survey of non-HR executives,[40] the competition for talent serves as the key factor in ensuring sustainable organizational performance. As mentioned earlier in this chapter, the ongoing battle for talent requires organizations to look more broadly at nontraditional sources for talent. Seeking talent across a variety of geographic, cultural, and economic boundaries while aligning the talent acquisition strategy to the business strategy in competitive priority areas requires strength in global and cultural effectiveness as well as in business acumen.

Despite the hype, performance management is not going away. However, the traditional ways in which performance management has been implemented will likely see fewer and fewer supporters. Instead, TM practitioners, especially those who own TM processes and systems (such as HR), will find new approaches to these systems, moving beyond administrative processes and focusing on value-added business outcomes. These new approaches will require establishing a performance- and accountability-based culture that embeds feedback and coaching into day-to-day TM rather than viewing performance management as a separate and administrative process. For TM practitioners, this means building proficiency in communication, relationship management, and critical evaluation as key drivers of performance management success.

Paid parental leave has become a top trend for TM in 2017 as organizations grapple with the issues of low engagement, burnout, poor productivity, and stress-related illnesses driven by significant workplace demands and a highly complex, global environment. Although only about a quarter of organizations currently offer this type of paid leave,[41] all organizations will need to consider these and other benefits and programs that attract talent and ensure that talented employees stay. Consequently, TM practitioners must be proficient in global and cultural effectiveness, consultation, and the HR expertise functional areas of diversity and inclusion, employee engagement and retention, and total rewards.

The exploding use of evidence-based, data-driven talent decisions, coupled with the expanded HR and TM technology marketplace, has increased TM practitioner reliance on such technology to remain competitive and stay ahead in the race to acquire and retain talent. From a competency perspective, this requires a strong foundation in the technology functional area of HR expertise, as well as critical evaluation proficiency, to determine where technology is most needed, to calculate the ROI of technology solutions, to analyze and interpret technology-based output, and to evaluate the effectiveness of technology.

As the practice of TM heads into the next decade, TM practitioners, whether based in HR or spread more widely across the organization, will be best prepared for the evolution of the field by developing their proficiency in all nine SHRM competency model competencies. Development of these competencies will give anyone implementing TM a great advantage in the talent landscape.

Summary

HR competencies have been a part of the HR profession for many years.[42] Whether HR or TM departments serve as the primary owners and implementers of TM in an organization or share TM with other organizational leaders, the competencies necessary for success are essentially the same and reflect the competencies necessary for leadership success. Competency models that are robust for the HR profession or that are specific to TM can therefore be particularly useful to individuals practicing TM, whether in a dedicated TM role or as a leader in other functional areas.

The SHRM competency model presents nine HR competencies that reflect the leadership, business, interpersonal, and technical competencies critical in leadership roles. As such, they are important to the function of TM, including talent acquisition, talent enhancement, talent mobility, and talent outplacement. The secret to TM success in these areas is in their application and execution. The more effectively HR and TM professionals are formally trained and experienced in these four areas and work collaboratively with others in the organization to manage talent, the more successful the organization will be.

In addition, anyone with TM responsibilities can develop his or her proficiency in these competencies using the same methods as HR professionals use. Practitioners who are applying TM practices to help their organizations win the war for talent, as well as to enhance their own careers, need to continuously build their proficiency in these areas.

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Chapter 51

Developing the Talent Developers

Tony Bingham, President and CEO
Association for Talent Development (ATD)

Our philosophy is that all learning is good because it facilitates cross-fertilization of ideas, which is the crucible of innovation. We think that engaging people in areas of learning that are important to them pays dividends in both concrete and subtle ways

—*Amy Pressman, CEO, Medallia*

ANDREA JUNG, CEO OF GRAMEEN AMERICA AND FORMER CEO OF AVON, WAS recently interviewed for *TD* magazine. In talking about the importance of talent development, she stated, "My three decades in different kinds of organizations, plus being on some corporate boards, has led me to think that a focus on and investment in talent development is imperative. I don't see how organizations can survive in what is clearly a changing environment characterized by competition and innovation." Indeed, organizations are only as effective as the people who work for them.

And it is the work of professionals who develop the knowledge, skills, and abilities of others that help the organization achieve strategic goals and objectives. These individuals go by many titles: trainers, instructional designers, knowledge managers, coaches, subject-matter experts, facilitators, and talent developers. More than just delivering training programs or events, these individuals are learning facilitators, collaborators, guides, and partners in helping others achieve their full potential.

While many of these practitioners enter into the talent development profession intentionally, we know that many others are "accidental trainers," or serve a training role in addition to other responsibilities they have in their company. Regardless of how they've come to their talent development responsibilities, the impact they can have on an organization is significant, and the part they play in the talent management ecosystem is critical.

From creating compelling onboarding to developing leaders to building succession plans, the scope of the work of talent development professionals touches employees throughout their entire career. Empowering those who work in talent development with the resources and tools they need to be successful is the mission of the Association for Talent Development (ATD). The organization was formed in 1943 and for more than 70 years has been educating and equipping trainers and other talent development professionals so that they can develop their skills and knowledge and create more impact in their work.

Every organization committed to excellent talent management should also be committed to having an excellent talent development function. We believe talent development is the foundation of talent management.

ATD's Talent Development Framework

In the fall of 2015 ATD published the white paper, Building a Talent Development Structure Without Borders. The white paper was the culmination of a global research initiative that sought to identify what critical practices make up talent development functions in organizations around the world. The report identifies the 15 core practices of talent development that exist in almost every organization, and another 24 practices that exist in most organizations. It shows how organizations align the talent development function with support-critical strategic initiatives such as innovation, analytics, mobile and social learning, and talent management.

The goal for all talent development functions should be to have practitioners who effectively and consistently develop employees who positively affect organizational success.

A Personalized Professional Development Pathway

In the early days of ATD's history, the professional development support offered to members was largely in the form of articles about best practices and trends. These articles were published in the association's journal. Today, ATD offers a vast array of content, resources, courses, conferences, and research to meet the needs of those in the talent development field. Regardless of where they are in their careers, there are professional development resources available. Whether someone wants to self-educate by reading books or attending webinars and conferences, or engage in more structured development with education courses or certifications, ATD meets professionals where they are with relevant options.

ATD has developed a framework that provides opportunities for talent development professionals to map their growth with ATD's resources and services. This model is flexible, but has a progression that allows practitioners to apply what they're learning to next-level development.

For example, people new to the field may first engage with ATD via its publications. Those individuals become classroom trainers. They may initially read articles or participate in a webcast on best practices for in-person training. Next they may want to take one of ATD's programs to learn more about training delivery. That course may lead to a decision to get the ATD master trainer credential. As these people progress in their career and the scope of their role expands, they may consider obtaining the associate professional in talent development (ATDP) certification or the more advanced certified professional in learning and performance (CPLP) certification.

Let's take a deeper look at each part of the ATD professional development framework.

Articles, Publications, and Webcasts

ATD's commitment to sourcing the best content for talent development professionals has been a hallmark of the association since its founding. In the earliest days of the organization, that commitment was in the form of published journals and magazines that took a research-based approach to sharing best practices and theoretical constructs.

Today ATD's content offering has more depth and breadth:

- *ATD blogs:* ATD is committed to bringing thought leaders and their ideas to the talent development community. ATD blogs are a rich resource where practitioners can find posts on every subject related to the broad field of talent development. Even managers, whose role it is to develop the skills of their teams, will find relevant content to meet their needs. From how to measure learning impact to why emotional intelligence matters for leaders, ATD's blogs provide relevant information for practitioners. *Blogs also provide a way for members of the community to share their insights and expertise.*
- *Magazines and periodicals:* ATD's commitment to providing the profession with world-class content from leading experts has existed for more than seven decades. Over the years ATD has expanded from one quarterly journal to a content offering that includes three magazines, more than a dozen newsletters, and a monthly subscription publication called *TD at Work* that features a deep dive into a single topic of interest to the profession. Each publication offers talent development professionals the opportunity to learn about trends, insights, and best practices in the field. From guides on creating engaging e-learning modules to insights on what keeps learning leaders up at night, there is relevant content that helps practitioners who learn best by reading.
- *Books and research:* ATD Press, the publishing arm of ATD, publishes nearly 30 titles a year. These books cover a broad spectrum of topics in talent development. From our handbooks on training and development or integrated talent management, to perennial favorites like *Telling Ain't Training* and best sellers like *Kirkpatrick's Four Levels of Training Evaluation*, and *Leaders Open Doors*, ATD is committed to bringing quality titles to the field.
- *Webcasts:* ATD's webcast calendar is robust. Leading subject-matter experts share their insights. Whether it is advice on creating a compelling onboarding program or an exploration of the complexities of managing learning for a dispersed workforce, ATD's webcasts are another way talent development professionals can learn and grow their knowledge.

In addition, several research reports, white papers, and case studies are published each year. These reports are produced in response to what practitioners tell us is most important to them. From research on mobile learning or creating a learning culture, to reports about the compensation for talent development professionals, ATD reseach allows practitioners to benchmark their efforts. ATD's annual State of the Industry report is frequently cited in the media to show what kind of resources are being committed to talent development.

Events and Conferences

Another stop on the ATD professional development path is conference and workshop offerings. When professionals are interested in more than reading articles or watching webcasts, many choose to attend an event at which they can learn and then network with peers. ATD's conference and workshop offerings have expanded significantly to meet the demands of our global community. Some of the offerings include:

- *ATD International Conference and Exposition:* This premier event is likely the most well-known event in the talent development community. More than 10,000 people from over 90 countries come together each year to learn with and from each other. ATD offers more than 300 educational sessions during this event and 400-plus industry suppliers showcase the latest tools and resources.
- *ATD TechKnowledge:* This conference and exposition is focused on the intersection of learning and technology. Attendees are interested in learning about how technology can enhance learning or learning management. Many are interested in what horizons technology is opening for the talent development field.
- *Small conferences and workshops:* In recent years, ATD has developed a robust offering of more intimate and focused learning events that offer attendees the opportunity to explore specific areas that are important to the field. The Core 4 Conference offers education on the four primary aspects of talent development: training delivery, instructional design, learning technology, and measurement and evaluation. LearnNow workshops focus on topics like change management, the flipped classroom (a teaching model in which the typical lecture and homework elements of a course are reversed), the modern learner, and storytelling.

International Events

ATD is a global association with members from more than 120 countries. It is incumbent on ATD to ensure that it is serving the needs of global members with content and events in their countries. International offerings have expanded to include conferences and summits in China, India, Mexico, Japan, and the Middle East. These are multiday learning events focused on best practices and case studies from organizations in the region. When ATD offers these events, it partners with organizations in the host countries to ensure that the educational offerings are relevant to attendees.

ATD Professional Development Programs and Courses

The association offered its first "training institute" in 1954, and 25 people attended. Since that time the number of programs and the number of attendees in ATD programs have grown exponentially. In 2016, there were almost 800 deliveries of ATD programs with nearly 12,000 people around the world attending.

All ATD courses are anchored in the ATD competency model, a research-based road map that identifies the critical areas of competence for talent development professionals. More about the model is explained later in this chapter.

When talent development professionals want to deepen their knowledge of specific topic areas, they can choose courses, workshops, and certificate programs. The offerings are designed to meet the learners where they are and offer a variety of delivery modalities that help professionals learn in a way that is convenient for them.

More than 100 of the world's best facilitators teach professional development programs and courses. These facilitators are subject experts and published authors in the field, and they come from a wide range of industries and sectors. Many of them also serve as instructional designers, managers, coaches, human performance improvement professionals, and consultants throughout the industry.

ATD professional development programs and courses are designed to be delivered face-to-face or online, live or on demand (at the learner's convenience and pace), and are made available at many public venues around the world. They can also be brought onsite for companies to offer privately to their teams almost anywhere in the world.

ATD's professional development offerings reflect the broad spectrum of talent development responsibilities and skills. Major content areas are:

- Business partnering
- Delivering training
- Designing learning
- E-learning/online learning
- Human performance improvement
- Management and leadership development
- Measuring and evaluating learning
- New approaches to learning
- Organizational development
- Presentation and facilitation skills
- Project management

The ATD Competency Model

The importance of competency models and establishing standards for the field has been a hallmark for the association since its earliest days. The association has published eight models over the course of its history. Each update was based on deep, global research that identified skills important for current times but also pointing to where the profession was headed.

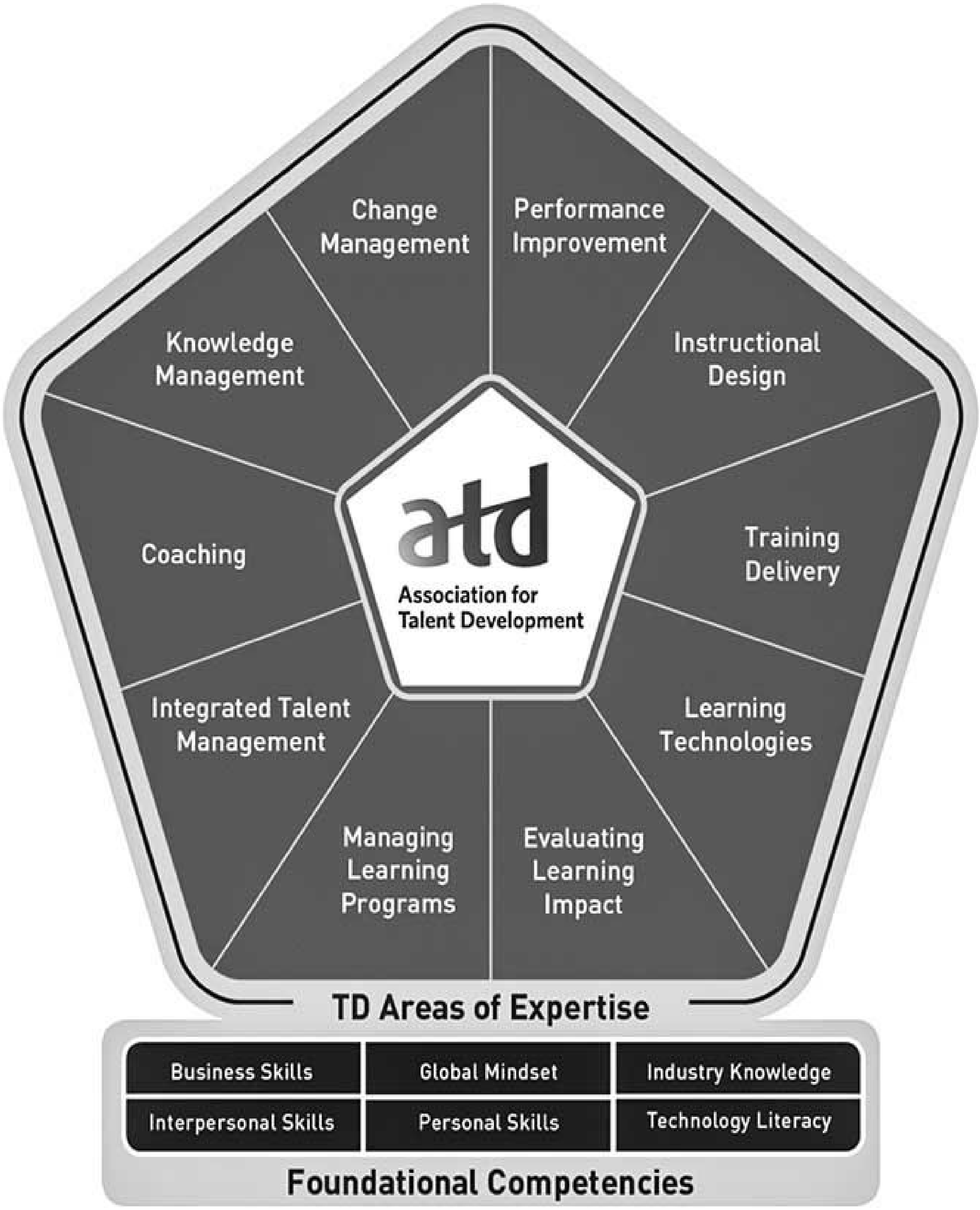

Figure 51.1 ATD Competency Model

In 2001, the association's leadership created a certification institute, an independent organization specifically tasked with taking the lead to set industry standards for the profession. An in-depth competency study was launched, and the results led to the creation of a competency model on which industry certifications could be built.

The latest update of the ATD competency model occurred in 2013 and was driven by a significant transformation that the talent development profession had undergone in the previous decade. The updated ATD competency model redefines the knowledge and skills required for talent development professionals to be successful now and in the future. It captures changes driven by digital, mobile, and social technology; demographic shifts; globalization; and economic forces.

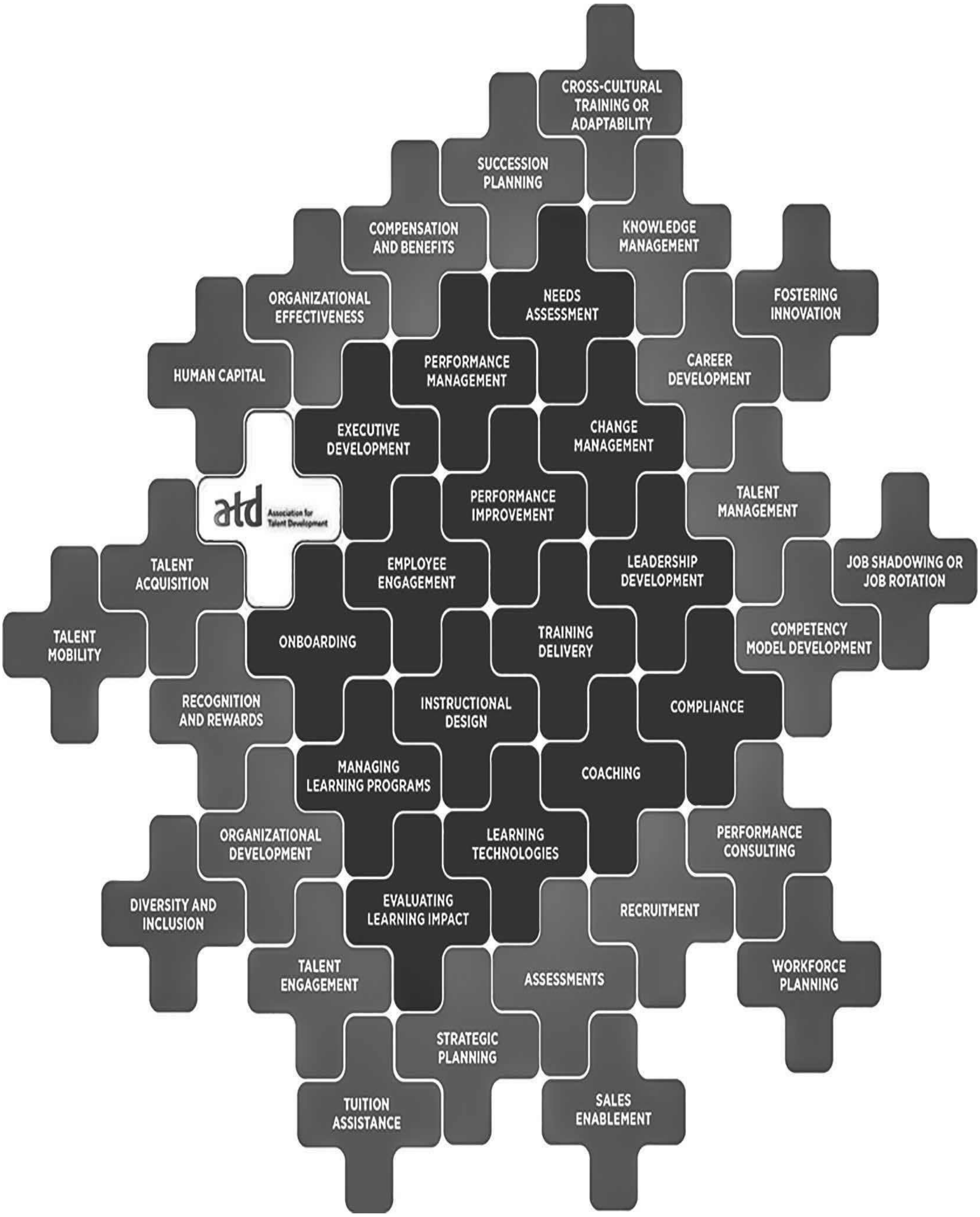

Figure 51.2 Graphic for TD

This model helps practitioners become business partners and provide their organizations with an even higher level of value. There are ten areas of expertise and six foundational competencies. The areas of expertise include the full complement of knowledge and skills deemed essential for talent development professionals. The foundational competencies include those business skills that will help talent development professionals be strategic business partners for their organizations or clients.

Practitioners can use the model as a road map for their professional development to create individual learning plans. Learning leaders can use the model to help build talent development competencies to develop the right talent for their organizations.

The ATD Competency Model is described in Table 51.1.

Area of Expertise	Description
Instructional design	Design and develop informal and formal learning content using a variety of methods.
Training delivery	Deliver informal and formal learning solutions in a manner that is both engaging and effective.
Learning technologies	Apply a variety of learning technologies to address specific learning and performance needs.
Evaluating learning impact	Use learning metrics and analytics to measure the impact of learning and performance solutions.
Managing learning programs	Provide leadership to execute the organization's people strategy; implement learning projects and activities.
Integrated talent management	Build an organization's culture, capability, capacity, and engagement through talent acquisition and employee development.
Coaching	Apply a systematic process to improve others' abilities to set goals, take action, and maximize their strengths.
Knowledge management	Capture, distribute, and archive intellectual capital to encourage knowledge-sharing and collaboration.
Change management	Apply a systematic process to shift individuals, teams, and organizations from current state to desired state.
Performance improvement	Apply a systematic process for analyzing human performance gaps and closing them.

Table 51.1 ATD Competency Model

Breaking Down the Competencies

The ATD competency model not only identifies the areas of expertise and foundational competencies relevant for talent development professionals, but it also identifies specific skills to help practitioners frame their own development needs. The skills identified are based on comprehensive research. Below is a breakdown of specific skills for the ten areas of expertise and six foundational competencies.

Areas of Expertise

Instructional Design

Design and develop informal and formal learning solutions using a variety of methods.

Be able to:

- Conduct a needs assessment.
- Identify appropriate learning approach.
- Apply learning theory.
- Collaborate with others.
- Design a curriculum, program, or learning solution.
- Design instructional material.
- Analyze and select technologies.
- Integrate technology options.
- Develop instructional materials.
- Evaluate learning design.

Training Delivery

Deliver informal and formal learning solutions in a manner that is both engaging and effective.

Be able to:

- Manage the learning environment.
- Prepare for training delivery.

- Convey objectives.
- Align learning solutions with course objectives and learner needs.
- Establish credibility as an instructor.
- Create a positive learning climate.
- Deliver various learning methodologies.
- Facilitate learning.
- Encourage participation and build learner motivation.
- Deliver constructive feedback.
- Ensure learning outcomes.
- Evaluate solutions.

Learning Technologies

Apply a variety of learning technologies to address specific learning needs.
Be able to:

- Use technology effectively across the different areas of expertise.
- Identify when and how to use technology as a training and development solution.

Evaluating Learning Impact

Use learning metrics and analytics to measure the impact of learning solutions.
Be able to:

- Identify customer expectations.
- Select appropriate strategies, research design, and measures.
- Communicate and gain support for the evaluation plan.
- Manage data collections.
- Analyze and interpret data.
- Apply learning analytics.
- Make recommendations to aid decision making.

Managing Learning Programs

Provide leadership to execute the organization's people strategy; implement training projects and activities.
Be able to:

- Establish a vision.
- Establish strategies.
- Implement action plans.
- Develop and monitor the budget.
- Manage staff.
- Model leadership in developing people.
- Manage others.
- Manage and implement projects.
- Manage external resources.
- Ensure compliance with legal, ethical, and regulatory requirements.

Integrated Talent Management

Build an organization's culture, capability, capacity, and engagement through people development strategies.
Be able to:

- Align talent management with organizational objectives.
- Use talent management systems.
- Equip managers to develop their people.
- Organize delivery of developmental resources.
- Promote high-performance workplaces.
- Coordinate workforce and succession planning.
- Facilitate the career development planning process.
- Facilitate career transitions.
- Support engagement and retention efforts.

- Implement individual and organizational assessments.
- Use talent management analytics to show results and impact.

Coaching

Apply a systematic process to improve others' ability to set goals, take action, and maximize strengths.

Be able to:

- Establish coaching agreement.
- Establish trust and intimacy with the client.
- Display coaching presence.
- Demonstrate active listening.
- Ask powerful questions.
- Use direct communication.
- Create awareness.
- Design learning opportunities.
- Develop goals and plans.
- Manage progress and accountability.
- Meet ethical guidelines and professional standards.

Knowledge Management

Capture, distribute, and archive intellectual capital to encourage knowledge-sharing and collaboration.

Be able to:

- Advocate knowledge management.
- Benchmark knowledge management best practices and lessons learned.
- Encourage collaboration.
- Facilitate social learning.
- Establish a knowledge culture.
- Support the development of a knowledge management infrastructure.
- Leverage technology.
- Manage the information life cycle.
- Design and implement knowledge management solutions.
- Transform knowledge into learning.
- Evaluate knowledge management success.

Change Management

Apply a systematic process to shift individuals, teams, and organizations from the current state to the desired state.

Be able to:

- Establish sponsorship and ownership for change.
- Build involvement.
- Create a contract for change.
- Conduct diagnostic assessments.
- Provide feedback.
- Facilitate strategic planning for change.
- Support the change intervention.
- Encourage integration of change into organizational culture.
- Manage consequences.
- Evaluate change results.

Performance Improvement

Apply a systematic process for analyzing human performance gaps and for closing them.

Be able to:

- Identify the customer.
- Conduct performance analysis.
- Conduct cause analysis.

- Analyze systems.
- Gather data.
- Incorporate customer and stakeholder needs.
- Select solutions.
- Manage and implement projects.
- Build and sustain relationships.
- Evaluate results against organizational goals.
- Monitor change.

Foundational Competencies

Business Skills

Be able to:

- Analyze needs and propose solutions.
- Apply business skills.
- Drive results.
- Plan and implement assignments.
- Think strategically.
- Innovate.

Global Mindset

Be able to:

- Accommodate cultural differences.
- Convey respect for different perspectives.
- Expand own awareness.
- Adapt behavior to accommodate others.
- Champion diversity.
- Leverage diverse contributions.

Industry Knowledge

Be able to:

- Maintain own professional knowledge.
- Keep abreast of industry changes and trends.
- Build industry sector knowledge.

Interpersonal Skills

Be able to:

- Build trust.
- Communicate effectively.
- Influence stakeholders.
- Network and partner.
- Demonstrate emotional intelligence.

Personal Skills

Be able to:

- Demonstrate adaptability.
- Model personal development.

Technology Literacy

Be able to:

- Demonstrate awareness of technologies.
- Use technology effectively.

This inventory of competencies and skills helps ATD map its professional development offerings. Programs, content, and resources are created to help develop knowledge, skills, and abilities of practitioners in each of these skill areas.

Beyond the broad offering of ATD programs that help professionals upskill on specific areas, ATD also provides opportunities for talent development practitioners who are looking to differentiate themselves. ATD's professional development framework offers ways to validate mastery on many levels.

> I think a great learning function helps people discover how to be better.
>
> —*David Novak, Former CEO, Yum! Brands*

Masters and Expert Series Credentials

Among the data used to create a professional development curriculum, ATD frequenetly asks its members and the global community for input. Members have told ATD that they want to distinguish themselves in specialized areas of expertise. This led the ATD Certification Institute to develop the masters and expert series of assessment-based certificate programs. Each is based on one of the areas of expertise in the ATD competency model.

The most current masters and expert certificate programs include:

- Training delivery
- Instructional design
- Performance consulting
- Coaching

Each program requires in-person instruction and an assessment to demonstrate mastery.

Practitioners who attain these credentials identify themselves as having mastered key skills in areas of significant importace to the field. Individuals who commit to this level of professional development bring keen insights into the talent management processes for the organizations in which they work.

Creating a Stackable Framework

The idea of creating career pathways through the use of "stackable credentials" is not new. According to the the U.S. Department of Labor, a stackable credential is defined as, "Part of a sequence of credentials that can be accumulated over time to build up an individual's qualifications and help them to move along a career pathway or up a career ladder to different and potentially higher-paying jobs." (Source: TEGL 15-10, www.doleta.gov.)

With the growth of ATD's professional development offerings, it became clear that it needed to design a career pathway for talent development professionals. Utilizing 70-plus years of expertise and resources, ATD has always delivered content and programs in many forms to support and grow the capabilities of talent development professionals. The stackable framework provides a structure so that once practioners engage with ATD for their professional growth, they can use their new knowledge and skills to build career development momentum to the level of professional development they want to attain. Every offering should prepare the learner for the next level of development. Those who successfully complete an ATD Masters series certificate program can apply their knowledge toward a next-level credential.

The Associate Professional in Talent Development

Launched in 2017, the associate professional in talent development (APTD) is designed to recognize competence in the core components of talent development: training delivery, instructional design, and learning technologies, with the additional elements of evaluating learning impact and global mindset. The APTD certification was created to fill a career development gap for those early in their careers, or those who have narrowly focused responsibilities.

The APTD certification requires the candidate to successfully pass a knowledge exam. Eligibility to sit for the exam requires three years of experience or two years' experience and successful completion of one of the approved ATD masters series programs. APTD certification holders will need to be recertified every three years.

Professionals who attain the APTD certification may decide to use that credential as a stepping stone to the industry's premier certification: the certified professional in learning and performance (CPLP). They will be able to apply some of their expertise toward that effort. The CPLP certification is the most in-depth certification that an individual can attain and represents the highest element of the "stackable framework" ATD has created for talent development professionals.

The Certified Professional in Learning and Performance

Since being established in 2006, more than 2,000 professionals have earned the CPLP certification. It is the only certification that covers the depth and breadth of the ATD competency model. Those who want to become CPLP-certified must demonstrate knowledge and application by passing a knowledge exam and a skills application exam. Practitioners should have at least five years of experience before applying to be a CPLP.

Candidates typically spend 80-plus hours to prepare for the knowledge exam and another 30-plus hours to prepare fo the skills application exam. ATD offers many resources to help candidates prepare, including instructor-led workshops, an on-demand course, and the ATD learning system, the official study resource for the CPLP exam.

Fostering a Learning Culture Is Critical to Employee Engagement and Talent Management

A highly qualified talent development team is an invaluable resource for organizations. Research indicates a correlation between talent development and employee engagement. DecisionWise, a talent management consulting firm, states that, "An employee's perception of internal growth and development opportunities is one of the more important predictors of employee engagement."

If engaged employees are bottom-line contributors and talent development is positively correlated with employee engagement, it would be expected that most organizations promote a culture of learning and commit necessary resources to create a thriving talent development function. Research from ATD suggests that most organizations are still working toward this goal.

In the 2016 report Building a Culture of Learning: The Foundation of a Successful Organization, key findings include:

- Only 31 percent of organizations have a strong culture of learning. A culture of learning is one in which employees continuously seek, share, and apply new knowledge and skills to improve individual and organizational performance.
- However, 71 percent of talent development professionals agree to a high or very high extent that a learning culture results in greater levels of employee engagement. Some other benefits according to the majority of participants are, not surprisingly, improved individual and organizational performance, increased ability to effectively respond to change, and better ability to retain and compete for talent.

For organizations that are serious about competing in the global economy and are interested in attracting the best and brightest employees, building a learning culture and committing appropriate resources to talent development are critical.

Proof is in the results. Organizations that excel at strategically using talent development are recognized annually with ATD's BEST awards. These organizations are the benchmark in the annual State of the Industry report. Among key metrics, they offer more learning hours, and their employees take advantage of the learning opportunities at higher rates than other organizations. Further, ATD's research report The Value of Learning: Gauging the Business Impact of Organizational Learning Programs shows that learning effectiveness is greater in higher-performing organizations.

Empowering Professionals to Develop Talent in the Workplace

Talent development professionals are uniquely positioned in organizations to drive strategic impact, and when aligned or working in conjunction with talent management, senior leaders will see the greatest impact on employee performance and the bottom line. For this reason, it is imperative that talent development professionals, managers, and others who have the responsibility for developing others grow their own skills and knowledge.

Vibrant economies need thriving organizations. And thriving organizations need highly skilled and capable talent. Leaders committed to excellent talent management must also be committed to ensuring that the talent development function is sufficiently resourced with experienced and knowledgeable professionals equipped to deliver the most value possible.

Resources

Definition of stackable credentials: Source: TEGL 15-10, www.doleta.gov.
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Chapter 52

Evolving Organization Development for the Future

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Morgan McGuire Leadership LLC

Making changes in strategy or structure by itself takes a company only so far.
The hardware on a computer is useless without the right software.
Similarly, in an organization, the hardware (strategy and structure)
is inert without the software (beliefs and values).

—*Larry Bossidy, Execution: The Discipline of Getting Things Done*

OUR WORLD HAS ENTERED AN AGE OF DISRUPTION MARKED BY A HYPERACCELERATED pace of change. Research shows that employees and organizations are more "overwhelmed" than ever (Schwartz, 2014). Combine this with the fact that productivity growth remains rather low (U.S. Bureau of Labor Statistics, 2016) even as one of the improvement-accelerating disruptors, new technology, is an everyday fact of life in the business environment. Amid disruption, productivity challenges, and the related stressors, one enabling tradition remains constant—proactive, inspirational leaders recognize their roles in developing an organization and its people so both can thrive.

These wise leaders look to organization development (OD) as a critical driver for developing capabilities required to consistently achieve present and future goals. Why? Because OD practitioners work with leaders to simultaneously manage the complexities of rapidly changing organizations while nurturing the people who must harness change to create progress. Through its organization-wide lens, OD integrates *process* (mission, goals, strategies, structure) and *people* (value, beliefs, culture) to drive organizational performance. Partnering with OD is a bona fide approach to achieving organizational excellence by meeting the needs of the hands, the hearts, and the heads of employees who ultimately deliver results within an organization.

OD is a proven, trustworthy partner for leaders and organizations racing to keep up with change. At the same time, OD processes often are deployed without connection to the *organization development* label. Leaders may not know that OD processes are working within the system and getting results. This under-the-radar anonymity can lead to opposing viewpoints. Is OD having a brand identity crisis? Or is the field intuitively growing and evolving to stay current with pace-of-change conditions?

Both perspectives are valid. OD owns a very credible reputation for being responsive to changing business environments. The nearly 60-year-old field that emerged from pioneering human relations studies has spawned robust performance-enhancing systems like quality management, reengineering, organization culture and climate, organization transformation, and change management. Today, this landscape of varying disciplines and practices may cause people to seek answers to these questions: What is OD? Why is it vital to an organization's success? What competencies do skilled OD practitioners use? These fundamental questions demonstrate the thirst for understanding OD.

This chapter answers those questions by looking at snapshots of OD from four perspectives:

- Origins of OD
- Context and complexities of OD today
- Current OD definitions and competencies
- Foundation of OD for the future

OD is vital in a complex, rapidly changing environment. The origin of OD, along with knowledge of the current competencies, provides a blueprint for a framework of the future—one that positions OD as an organization's bridge to performance.

Origins of OD

It is useful for OD practitioners to understand the origin of OD and the descendant concepts that have shaped the field over the years. OD began with Kurt Lewin's study of social systems in 1939, in which he provided core social values of democracy, belief in human potential, and scientific inquiry (Lewin, 1947). These values anchored OD research and interventions by others like Richard Beckhard and Douglas McGregor at General Mills; and Robert Blake, Jane Mouton, and Herb Shepard at Esso (now Exxon Mobil). Although the OD work at the two companies was unrelated, it was rooted in sensitivity training with T-groups (training groups) that began at the National Training Laboratories founded by Lewin (Burke, 2014). In the 1960s and 1970s, Lewin's values—along with his action research, the field theory (including the force field analysis used today), and social system planning methods—gave OD a solid foundation. A group of social scientists and psychologists fortified the foundation by developing practices and models like the scientific approach, group dynamics, process consultation, planned change, and an appreciation of people and potential.

In *Making Sense of Organizational Development*, Bob Marshak compares the history of OD to a tree that began to branch out in the 1980s and 1990s on the strength of action research and engagement, large group interventions, appreciative inquiry, continuous change, and diversity and inclusion. Marshak continues the botanical description of the initial OD decades, referring to the year 2000 and later as *the thousands of blossoms we are experiencing today.* Those rich and varied blossoms take the form of OD practitioners using the discipline's foundational approaches, contemporary methods, and many blended approaches.

There are multiple ways to identify, analyze, and address organizational opportunities and challenges. Some practitioners may be disappointed that there is not "one right way" or a step-by-step OD approach for each organizational challenge an OD practitioner encounters. In helping to transform an organization, an OD practitioner's central challenge is *staying true to the origin and roots of OD.* That is how the organization, with the practitioner's help, can take full advantage of the breadth of interconnected branches on the OD family tree (Marshak, 2013).

The Classic Definition of OD

Since 1969, the definition of OD has come from the work of Richard Beckhard in *Organization Development: Strategies and Models* (1969). Beckhard, one of the original innovative pioneers who helped invent the field of OD, said organization development is an effort that is:

- Planned
- Organization-wide
- Managed from the top
- Intended to increase organization effectiveness and health
- Using behavioral-science knowledge through planned interventions in the organization's "processes"

Beckhard created this definition during the Industrial Age, when an organization performed like a dependable machine with reliable, interlocking gears. Accordingly, organization-wide OD interventions were geared to match the needs of the organization. Many of those needs came from challenges on the factory floor, issues discussed in nearby leadership offices, or the increasing market competition in the United States. The arrival of the Information and Digital Ages led the OD field to adapt to the new needs of organizations.

Context and Complexities of OD Today

The OD journey from its origins to today is best described by the Heraclitus perspective, "Nothing is permanent but change." The OD evolution mirrors transformations seen in organizations responding to any number of changes. Transformations result from: global diversity, digital natives who are wired 24/7, unlimited connectivity, changing financial and government structures, fluid work units, and a focus on individual and environmental wellness (Johansen, 2007). One constant among these changes is the need for OD practitioners to intensify their efforts to help leaders and organizations navigate an ongoing journey characterized by volatility, uncertainty, complexity, and ambiguity (VUCA).

Contemporary realities have led to some confusion over the distinction between *the practice* of OD and *approaches used* within OD interventions. For example, an off-site department strategy or team development retreat, in itself, is not OD. Yet it may be part of an OD intervention that involves the whole organization. Today's OD work continues to be grounded in the behavioral sciences with respect for people's potential, the work of groups, and the engagement of individuals throughout the organization. OD practitioners also continue to use scientific, data-based approaches in research with a planned approach that provides insights about conditions inside and outside the organization. Essentially, OD has remained true to its wholistic beginnings. Yet perceptions exist that tools or approaches used as a part of an OD intervention are OD.

With the ongoing development and change needed to address opportunities and challenges, leaders in organizations look to OD practitioners as partners. With increasing demand for OD, the term *OD practitioner* has expanded to include three categories: (1) OD consultants, (2) specialists in fields related to OD, and (3) leaders in organizations. Originally, the OD practitioner label applied to internal and external OD consultants who typically were equipped by training, skills development, and experience to practice OD. Today, there are also specialists in fields like human resources, talent management, quality, strategy, and change management who have gained OD competencies by working with experienced OD consultants on organization wide OD projects. Organization leaders are the third, rapidly growing group of OD practitioners. Leaders, like specialists, have gained OD skills through side-by-side work experience with OD practitioners, and by building on those skills through training. Experts in OD share a perspective that as the speed of change continues to increase, so does the need for leaders to be skilled OD practitioners. As more skilled practitioners are required, there's a growing need for clarity in the OD definition and competencies.

Current Definitions of OD

In the face of a vastly different work environment and the world changing at an accelerated pace, today's OD solutions have shifted. Performance-based expectations, however, remain constant. Operational success depends largely on the outcomes in organizational health and effectiveness. At the same time, experienced OD practitioners know that *organizations* do not achieve success. An entity itself does not create a healthy or effective workplace. People inside the organization make an organization what it is. Or what it is not. In the purest OD sense, each individual is engaged in the OD intervention. It's a wholistic process that develops an entire organization through and with its people. In the words of legendary football coach, Vince Lombardi, "The achievements of an organization are the results of the combined effort of each individual."

During the period since Beckhard and other OD pioneers first gave a name, definition, and visibility to OD, many interpretations have emerged that highlight different aspects of OD. Recent definitions are in the sidebar.

- Organization development is a body of knowledge and practice that enhances organizational performance and individual development, viewing the organization as a complex system of systems that exist within a larger system, each of which has its own attributes and degrees of alignment. OD interventions in these systems are inclusive methodologies and approaches to strategic planning, organization design, leadership development, change management, performance management, coaching, diversity, and work/life balance (Minahan, 2016).
- Organization development is a system-wide application and transfer of behavioral science knowledge to the planned development, improvement, and reinforcement of the strategies, structure, and processes that lead to organization effectiveness (Cummings and Worley, 2015).
- Organization development is a transformative leap to a desired vision where strategies and systems align, in light of local culture with an innovative and authentic leadership style using the support of high-tech tools (Asia OD Network, 2005).
- Based on (1) a set of values, largely humanistic; (2) application of the behavioral sciences; and (3) open system theory, organization development is a system-wide process of planned change aimed at improving overall organization effectiveness by way of enhanced congruence of such key organizational dimensions as external environment, mission, strategy, leadership, culture, structure, information and reward systems, and work policies and procedures (Bradford and Burke, 2005).

Although the language of current definitions varies, similarities point to OD as a practice:

1. That is an organization-wide planned process.
2. That uses behavioral science technologies.
3. That is designed to help individuals and cultures drive organizational performance.

OD clearly focuses on the process and results as well as the people who deliver the results. At times, OD can be seen as complex and all-encompassing. For example, during our work with a high-tech, 100-employee consulting firm, we utilized OD practices to integrate a critical component into the culture of the organization so that the employees could better serve customers. It is easy to envision how 100 already busy employees might receive a culture initiative that competes for their time against billable-time expectations. Yet there was little protest within the organization. Why? The company's OD initiative was a planned, multiyear intervention led by senior leaders who had invited all employees to participate in how the organization would balance people, process, and profit needs while the culture integration took hold. The OD initiative impacts each individual on a personal level, which leads to cultural change within the organization and also among customers and suppliers. As such, the approach embodies the contemporary and classic definitions of OD.

Current OD Competencies

Over time, several collections of competencies have emerged within the OD field. Although the competencies may differ, all reflect the core values of OD which are humanistic, optimistic, democratic, and participative (Milbrandt et al., 2014). One set of competencies resulted from a 1998 project sponsored by the Organization Development and Change Division of the Academy of Management. These OD competencies were identified in order to help structure OD graduate program curriculums. Results of the research described OD competencies used in existing and changing systems. Competencies were primarily in these areas: interpersonal and self-management skills, general consultation skills, OD knowledge, and business knowledge (Worley and Varney, 1998).

This study and others prompted Sullivan, Rothwell, and Worley to initiate OD competency research in 2010. Their original list of 17 competency domains and 141 behavior statements was refined through work conducted in 2010. The latest work produced competencies grouped into two categories:

- 32 OD process competencies

• 33 self-as-instrument competencies (personal competencies)

Researchers clustered, analyzed, and correlated items to an overall competency list framework. Further analysis led to the final list of OD process and self-as-instrument competencies seen in Figure 52.1. Categories of clustered competencies from these two lists were compared showing the majority of competencies that appear in *both* the OD process and self-as lists. This reinforces the validity of those specific competencies.

	OD Process Competencies		Self-as-Instrument Competencies	
	Competency Label	No. of items	Competency Label	No. of items
Marketing	Ability to describe OD process	7	Self-mastery	13
	Quickly assess opportunities for change	4	Ability to evaluate change	6
	Clarify outcomes and resources	3	Clarify data needs	4
	Develop relationships	2	Manage the transition/sustain momentum	8
	Make good client choices	1	Keep information flowing	7
Start-up	Set the conditions for change	4	Integrate theory and practice	6
	Address power	3	Ability to work with large systems	6
	Build cooperative relationships	3	Manage the separation	3
	Clarify roles	2	Participatively create a good action plan	6
Diagnosis/ Feedback	Research methods	6	Apply research methods appropriately	4
	Keep the information flowing	5	Manage diversity	4
	Clarify data needs	4	Imagination skills	2
	Keeping an open mind re: data	3	Focus on relevant issues	5
	Relevance	1	Clarify roles	2

	OD Process Competencies		Self-as-Instrument Competencies	
	Competency Label	No. of items	Competency Label	No. of items
Action Planning	Creating an implementation plan—I	4	Address power	2
	Creating an implementation plan—II	3	Clarify outcomes	1
	Facilitate the action planning process	3	Keep an open mind regarding data	2
	Obtain commitment from leadership	2	Stay current with technology	2
Intervention	Adjust implementation	4	Apply effective interpersonal skills	3
	Transfer ownership of the change	3	Set appropriate expectations	4
Evaluation	Ability to evaluate change	5	Let data drive action	3
	Use evaluation data to adjust change	4	Manage ownership of change	3
Adoption	Manage adoption and institutionalization	9	Be mindful of process	2
Separation	Manage the separation	5	Think systemically	3
	Master self	8	Comfort with ambiguity	3
	Be available to multiple stakeholders	7	Action plan with results in mind	1
	Ability to work with large-scale clients	4	Involve leadership	2
	Manage diversity	3	Be credible	2
	Be current in theory and technology	4	Be a quick study	2
	Maintain a flexible focus	2	Monitor the environment	1
	Possess broad facilitation skills	2	Network your services	1
	Be comfortable with ambiguity	2	Make good client choices	1
			Get leadership commitment	1

Figure 52.1 The OD Process and Self-as-Instrument Competencies

D. Warrick surveyed 50 contributing authors from the book, *Organizational Development* (4th ed,) to determine a list of essential competencies for effective OD practitioners. In response to a question on *the most important competencies OD practitioners should have,* authors provided competencies Warrick listed in categories or themes. The sidebar summarizes themes as seen through the eyes of 50 of the most highly regarded practitioners in the OD field.

Summary of Major Themes: Most Important Competencies OD Practitioners Should Have

- *Knowledge of OD:* Purpose, history, values, concepts, interventions, past and present practices and skills; what makes organizations successful; the critical role of leadership.
- *Interpersonal skills:* Passion for what you do; genuine concern for others; high self-awareness and willingness to learn, grow, and model what you teach; ability to build trust, uplifting and humble attitude that promotes the success of others.
- *Sound philosophical and ethical basis:* For practicing OD within organizations.
- *Conceptual skills:* Ability to see the big picture; systems perspective and to conceptualize and design the interventions and change processes that fit the needs of clients.
- *Consultation skills:* Skills in gaining entry, proposal writing, contracting for change, teaching and communicating ideas, diagnosing what is going on, data collection, analysis, and feedback, implementing changes, accomplishing goals, learning from the process.
- *Training and development skills:* Particularly skills in educating people on the importance of OD, change, and transformation.
- *Communication skills*: Skills in listening, facilitating, interviewing, conflict resolution, coaching, overcoming resistance to change, and giving candid, straightforward, helpful feedback.
- *Understanding of business*: Understanding fundamentals and operations of business.

The task of defining OD competencies started more than 30 years ago. Thousands of individuals around the globe have contributed to the ongoing refinement of the competencies to help establish the foundation for the OD framework of the future. This framework can eliminate questions on the definition of OD. It can validate the use of an assessment, an outdoor ropes course, or a balanced scorecard, not as isolated tools, but as woven threads in a wholistic OD intervention—one that provides an overarching OD solution to a business challenge. Today's OD practitioners, specialists in related fields, and leaders need a common understanding of OD and a framework that clearly differentiates the competencies needed as well as provides a development path for each competency in order to contend with change increasing at an exponential rate.

Foundation of OD for the Future

Defining OD and explaining it to organization leaders and practitioners can be a challenge. A recent LinkedIn discussion explored the OD identity and elicited comments from dozens of OD practitioners who energetically shared their perspectives on OD. Chris Worley, in summarizing participant comments that represented a wide spectrum, offered clarity on the OD identity, "Organizations are diverse, their development needs are diverse, and OD brings a diverse set of ways to help them be more effective." It is this diverse set of ways that can breed misunderstanding around the definition of OD.

Just as early OD pioneers shaped a new field, current practitioners continuously refine it by discovering new and diverse OD approaches and tools to serve leaders and rapidly changing organizations. Today, the three categories of practitioners (OD consultants, specialists in fields related to OD, and business leaders in organizations) work within organizations that face constant transformative change. Now more than ever, the OD field needs a shared set of competencies for practitioners and students worldwide. The competencies would generate consistency and a sense of connection in the field of OD, provide a growth path for practitioners, and differentiate its value.

Since 2014, the organization development network (OD network) has partnered with practitioners to begin validating a framework or common language around professional standards. When the standards are put into action, it will provide a path to outstanding performance for an OD practitioner. The professional standards provide a shared set of expectations about behaviors that lead to results with organizations. Sherry Duda, chief advisor to the OD network, who led The Global OD Practice Framework™ design effort shared: "Practitioners have always been clear about the performance impact and sustainability of OD interventions on teams and organizations. What hasn't been clear is the path to success."

With a common language, OD practitioners are better able to define their work and provide a clear and consistent answer to the "What is OD?" question while also identifying information and actions necessary for success. A natural result of the framework is a set of OD competencies as the basis for developing and expanding the skills of OD practitioners. These competencies clearly identify the knowledge, skills, attitudes, behaviors, and other characteristics necessary for successful practitioners.

The OD network released Version 1.0 of The Global OD Practice Framework™ (Figure 52.2) at its 2016 annual conference and on the OD Network website. The framework aggregates input from nearly 1,000 OD practitioners, scholars, and organization leaders. The framework defines five major capabilities and 15 differentiated competencies OD practitioners need in the current and future business environments. Figure 52.3 provides definitions of the 15 competencies. Behavioral statements for each of the 15 competencies are available at http://www.odnetwork.org/page/globalframework.

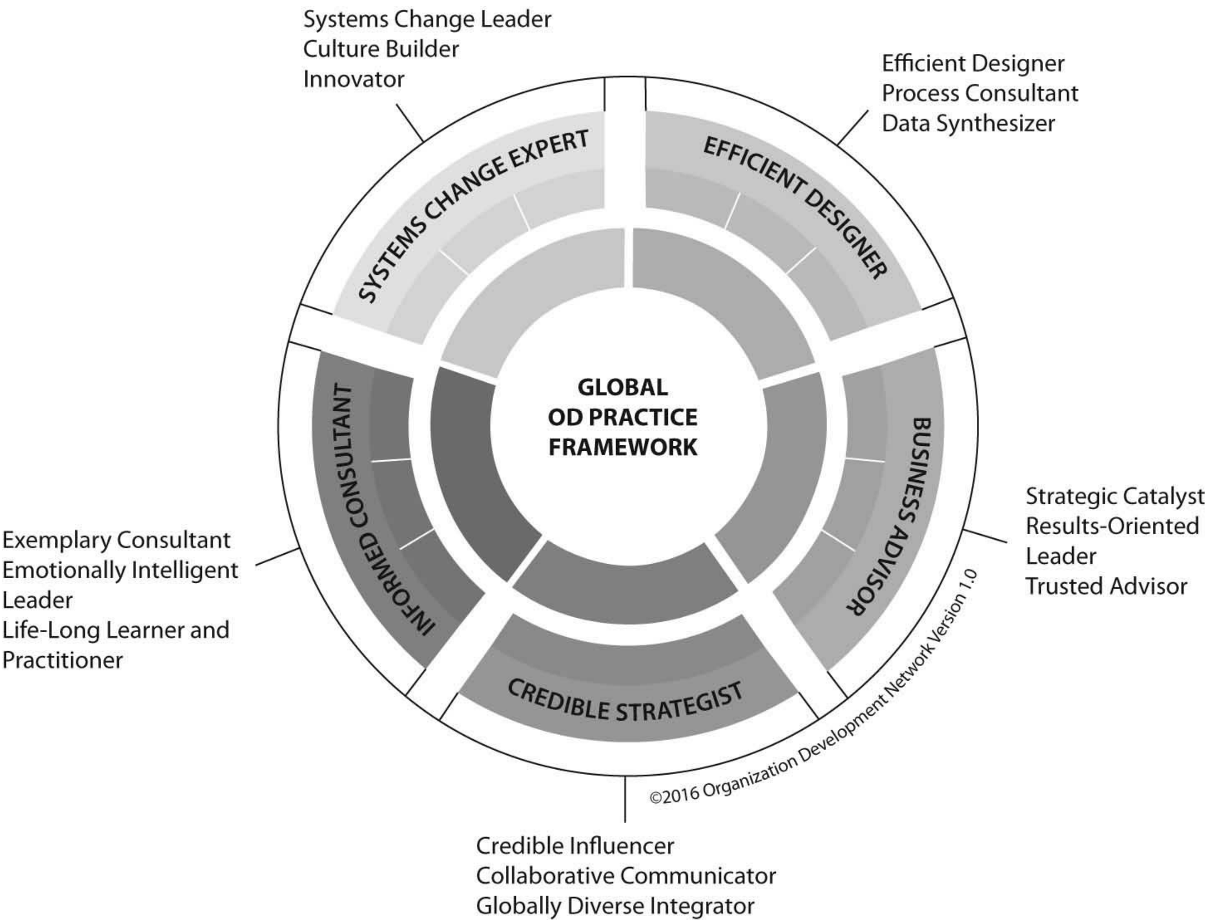

Figure 52.2 The Global OD Practice Framework™

Systems Change Expert	Efficient Designer	Business Advisor	Credible Strategist	Informed Consultant
• **Systems Change Leader** Leads change, transformation, and alignment within a rapidly changing environment	• **Efficient Designer** Applies technological solutions to increase effectiveness and efficiency	• **Strategic Catalyst** Develops reputation as a business leader with strong business acumen	• **Credible Influencer** Structures dialogue to create an impact and maximize favorable outcomes	• **Exemplary Consultant** Effectively contracts for goals, outcomes, and resources
• **Culture Builder** Promotes health and vitality of an organization by creating an environment of trust	• **Process Facilitator** Facilitates productive debate and expression of ideas toward a shared goal	• **Results-Oriented Leader** Measures, monitors, and adjusts strategies to achieve the desired impact	• **Collaborative Communicator** Designs and delivers effective communication strategies	• **Emotionally Intelligent Leader** Effectively reads stakeholders and demonstrates agility and flexibility
• **Innovator** Creates strategies for disruption, breakthroughs, transformation, and innovation	• **Data Synthesizer** Integrates and translates salient information into relevant insights	• **Trusted Advisor** Establishes a network of relationships and partnerships	• **Globally Diverse Integrator** Creates an inclusive environment for people of all identities and cultures	• **Life-Long Learner and Practitioner** Demonstrates leadership in a specialized area of OD; stays current with and applies classic and emerging behavioral science approaches

Figure 52.3 The Global OD Practice Framework^{TM} Definitions of 15 Competencies (Organizational Development Network, 2016)

Figure 52.3 defines competencies relevant to five broad expertise areas: systems change expert, efficient designer, business advisor, credible strategist, and informed consultant.

In the face of today's high-velocity change, it is important to consider examples of competencies that surface during OD interventions and impact the achievement of organizational goals. For example, as a *systems change expert*, OD practitioners are members of M&A teams from the early planning stage and continue through screening, due diligence, and the integration phases. They also work with HR business partners to help leaders assess an organization's health and effectiveness and lead systems transformation.

As *efficient designers,* OD practitioners partner closely with talent management to help increase leadership capacity as part of an organizational objective. During an OD intervention, they facilitate group dialogues with robust discussions and decision-making processes, where ideas are shared openly. This occurs throughout the stages of a strategic planning process and during redesign initiatives.

Whether a company is concerned about talent, the global marketplace, or regulatory issues, the OD practitioner as *business advisor* helps senior leaders by acting as a catalyst for innovative solutions to meet organization goals. Senior leaders also look to the OD practitioner to develop authentic, trusting relationships in which OD skills can be transferred. One example is an OD practitioner working with change management project managers in developing impact and ROI measures to make an evidence-based case for recommended solutions presented to leadership.

Using the *credible strategist* capability, the OD practitioner is an influencer who understands the environment and reaches out to others with sincere empathy and optimism. In an OD intervention, a team composed of internal and external OD consultants designed and delivered communication strategies that used a full range of communication vehicles. It was an extremely effective approach because the process employed technology and social media to connect people in virtual environments. There is also an expectation that the OD practitioner will challenge and stimulate the collective wisdom within the leadership team.

As an *informed consultant,* the OD practitioner is the living map guiding clients on the intertwining paths of an OD intervention. He or she uses highly developed questioning and listening skills to qualitatively and quantitatively assess an organization's effectiveness. Company boards, for example, periodically evaluate their own effectiveness in guiding the organization's growth and success. During a board evaluation, an OD practitioner led the planned wholistic process that impacted individuals, culture, and the direction of the company. The intervention began by questioning and listening to develop a plan with the CEO, board chair, and HR director. It continued with the use of those same skills in surveys, interviews, results preparation, board chair coaching, and the presentation of findings and recommendations.

OD is becoming more and more focused on helping organizations achieve strategic and business goals while living the OD core values. As the need for OD increases, so does the need for OD talent. This need may be one catalyst for practitioners, specialists in other fields, and leaders to assess their own expertise in terms of OD capabilities, competencies, and behaviors. The Global OD Practice Framework^{TM} provides the means for assessment as well as the groundwork for a personal development plan.

Looking to the Future

Organization development, a maturing and growing field, has experienced calls for more clarity on what the field is and what the discipline offers, along with steps to elevate legitimacy in scholarship and practice (Church and Jamieson, 2014). OD has evolved to the point where practitioners and leaders can benefit from the guidance of a tool like The Global OD Practice Framework™. The well-built, multipurpose framework reinforces the validity and clarity for the field of OD. It also is a validated competency model that provides a blueprint to advance research and the skills of OD practitioners and leaders. Equally important to establishing a consensus on the organization-performance value inherent in the discipline, the framework can provide a 30-second elevator pitch that equips practitioners, leaders, scholars, and students to clearly and consistently answer the question, "What is OD?"

Because The Global OD Practice Framework™ was released as Version 1, it is an early step in an exciting journey that will build a strong, solid foundation for the future of OD. The OD network will continue to seek expert feedback on the model for Version 2 and in the coming years. The Global OD Practice Framework™ and brand leadership team will shepherd the framework and has created a go-forward agenda built with three subteams: OD brand, professional standards, and practitioner development. The professional standards goal is to evolve the framework through research, aligned publications, and certification. Talent development initiatives will create professional development opportunities based on the 5 capabilities and 15 competencies for OD professionals. In contemporizing OD brand standards, the OD network will help define "What is OD?" and guide practitioners to live the brand with an intent to lead the direction of global OD during the next 50 years.

The time is right for a future vision where OD competencies are the consistent foundation for OD academic preparation, the criteria for hiring, performance management, and certification, and the gold standard for facilitating organizational growth in the age of disruption. Now is the time to devote conversations to the exciting new OD processes, the tried-and-true OD approaches, and OD relevance in impacting organizations worldwide. Across these areas, alignment will optimize our focus on how OD distinctly delivers value and results within rapidly changing organizations.

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Part VIII

Significant Trends Affecting Talent Management Practices

Chapter 53

Balancing Talent and Organization Culture: A Winning Combination

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TALENT HAS BEEN A PRIMARY AGENDA, IF NOT OBSESSION, FOR MANY GENERAL MANAGERS and human resource professionals for the last 20 years. In this chapter, we want to pivot and anticipate where talent attention might focus going forward in two areas: (1) offering new insights into why talent matters and (2) arguing that the focus on talent activities should morph to creating sustained organization cultures.

Talent Matters

No question that talent matters and has been the bailiwick for HR, captured in the maxim, "war for talent."[1] This talent emphasis has led to innumerable innovations in how organizations bring people into the organization, move them through the organization, and appropriately move them out of the organization.[2] Table 53.1 chronicles many of the choices in fighting the war for talent, each of which has been the focus of many companies and research.

Talent Domain	Talent Practice	Example of Talent Innovation
IN Bringing the right people into the organization	Set standards. What are the skills we need for new employees?	• Focus on future customer and investor requirements. • Hire for culture; train for technical skills.
	Source candidates. How do we source new candidates?	• Create positive employee brand social media. • Use contingent workers.
	Screen candidates. How do we know if this is the right candidate?	• Use behavioral event interviewing. • Involve multiple interviewers.
	Secure candidate. How do we create an employee value proposition?	• Create customized job offer. • Involve senior executives in making offers.
	Orient candidate. How do we help a new hire succeed?	• Have mentoring programs. • Manage early assignments.
THROUGH Moving people through the organization	Workforce plan. How well do we have a workforce plan for our employees?	• Turn strategic goals into desired competencies. • Focus on key positions.
	Training and development. How do we help existing employees improve?	• Learn from work experience, training, and life experience. • Make training a guest experience.
	High potentials. How do we invest in high-potential employees?	• Set criteria for high potentials (usually 5 to 15 percent of workforce). • Create individual development plan for high potentials.
	Career and promotion. How can we help employees manage their career opportunities?	• Offer employees tailored career path. • Build succession based on business more than person.
	Manage performance. How can we build positive accountability for employees?	• Focus less on performance process and more on conversations. • Help managers coach and communicate more than command and control.
	Allocate rewards. How do we use rewards to reinforce the right behaviors?	• Use financial rewards to send signals of what matters. • Use nonfinancial rewards to motivate employees.
	Engage employees. How do we capture the hearts and minds of our employees?	• Help employees find personal meaning from their work. • Create tailored employee value propositions for key employees.
OUT Removing unsuitable people from organization	Retain key people. How do we keep our best employees?	• Find ways for key employees to behave as if they are committed. • Rehire former employees (boomerang hiring). • Do a "stay" interview to listen to key employees.
	Remove appropriate people. How do we take out people in a positive way?	• Do strategic downsizing, not across-the-board cuts. • Move quickly and fairly for those who leave.

Table 53.1 Examples of Talent Choices in the War for Talent

Today general managers and HR professionals need to help their organizations move beyond fighting a war for talent to winning the war. This requires a shift from studying talent best practices (summarized in Table 53.1) to using those practices to create value. Without defining what it means to win, the war for talent is aimless. Talent is not just about applying a best practice, but how that practice delivers value to others. Hiring or training someone who fails to deliver value to key stakeholders is like preparing a meal in a restaurant without knowing what the patron wants to eat or playing a sport without keeping score.

Likewise, to win talent wars requires clarity about outcomes that deliver value. For example, it is not enough to build on strengths, but you must use strengths to strengthen others. It is not enough to measure the amount of training or staffing, but you must measure the impact of training or staffing on key organization outcomes. It is not enough for a leader to focus on his or her personal successes ("I am worth $1 billion!"), but to focus on the ways that he or she has helped others succeed ("I have helped create 1,000 millionaires."). Leaders who do not create value for others are narcissists, not true leaders.

Stakeholders for talent outcomes have traditionally focused inside the organization, with investments in talent resulting in greater employee productivity and well-being and organization strategic success. Going forward, talent value also comes from how talent choices affect those outside the organization, not just inside. Let us suggest three emerging stakeholders to shift talent from primarily an internal activity to valued outcomes outside the organization.

Talent Matters to Boards of Director

Boards are the boundary spanners between what happens inside and outside an organization. Members are elected by shareholders to represent their interests as they select the CEO and oversee management. Most board governance responds to regulation that encourages transparency and consistency. Much of the board work is done in committees: an audit committee to review the financial decisions, a governance committee to oversee policies, and a compensation committee to review the reward philosophy and choices. In a recent meeting of the National Academy of Corporate Directors conference, a group proposed that the compensation committee be expanded and changed to become the talent, leadership, and culture committee.[3] This committee would have a charter to evaluate an organization's processes around: leadership, succession, compensation, talent review, culture, and talent risk management. Today, the compensation committee responds to the following proxy charter:

> In the annual proxy statement, a company must disclose information concerning the amount and type of compensation … and the criteria used in reaching executive compensation decisions and the relationship between the company's executive compensation practices and corporate performance.
>
> The summary compensation table is the cornerstone of the SEC's required disclosure regulations on executive compensation. The summary compensation table provides, in a single location, a comprehensive overview of a company's executive pay practices.
>
> In addition, the compensation discussion and analysis (CD&A) section provides narrative disclosure explaining all material elements of the company's executive compensation programs.

In the future, a talent, leadership, and culture committee would provide the board with a broader perspective on all the issues listed above. Thus compensation becomes a part of an overall talent, leadership, and culture assessment rather than the only reported items. By focusing boards on public disclosure of talent, leadership, and culture, the board can better monitor the factors influencing future performance and thereby mitigate talent risk.

Talent Matters to Customers

In the past few years, we have argued that leaders are most effective when their behaviors reflect promises to customers. When a firm brand translates to a leadership brand, leaders create more value for targeted customers as well as employees.[4] The essence of customer focus is that employee sentiment is a lead indicator of customer sentiment. Customer net promoter scores are likely correlated with employee commitment scores.

Because employee attitude shapes customer attitude, talent practices listed above in Table 53.1 should be designed and delivered with customers both in mind and in practice. For example, customers can be involved in setting standards for who is hired and they can be invited to refer potential candidates as well as be part of the screening process. Customers can also be involved in designing, delivering, and attending training programs. Customers can also participate in reward systems. An airline gives its most frequent fliers ten $100 coupons to give to airline employees who offer these frequent fliers great service. Essentially, the airline is opening its performance system and bonus to key customers. This does not cost the airline more money because the bonus is only a small percentage of the overall bonus pool, but it bonds key customers to service-oriented employees. In some of the emerging organization design work, customer-focused teams are being used to create rapid innovation. In each of these cases, talent choices and actions include real customers so that employees are not just the "employees of choice" but also the "employees who customers would choose."

Talent Matters to Investors

Many investors are increasingly looking to predict and capture long-term value from a company. To do so requires going beyond looking at financial results (e.g., earnings, EBIDTA) to intangibles (like strategy, brand, technology, and systems) to talent, leadership, and culture. In our research we found that about 35 to 40 percent of a firm's market value was tied to financial results; 30 to 35 percent tied to intangibles (like strategy, brand, supply chain); and 25 to 30 percent related to quality of leadership (surrogate for talent).[5] The quality of talent should show up in investor confidence that the company will deliver intangibles and consistently create financial results. In the book *Leadership Capital Index,* we offer a framework and tool that investors can use to measure the quality of an organization's leadership.[6]

To demonstrate the impact of nonfinancials on firm market value, talent managers can prepare a graph of how their firm's price/earnings (or price-to-book) ratio compares to that of their top competitors over a significant period of time. Price/earnings (PE) shows the market value of earnings. Talent managers can prepare this chart to show the intangible value of their firm versus competitors.

For example, in Table 53.2, we show that Apple's PE ratio over a decade was 22.0 versus the company's top four competitors that had an average of 14.6. This means that about 50 percent (22 – 14.6 = 7.4/14.6 = 50 percent) of Apple's $750B ($375B) market cap is the result of the intangibles. If leadership, or talent, is about 30 percent of this intangible value,[7] then the value of talent to Apple is about $110B (30 percent of $375B). Table 53.2 is particularly interesting in terms of Steven Jobs' health issues and impact those issues had on price/earnings, showing that the years of his illness reduced Apple's P/E premium over competitors by a sizable margin.

Firm	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	10-Year Average of These Companies	Current Market Cap (in billions)
Apple	38.8	30.8	43.5	15.8	20.5	18	11.5	12.1	13.9	14.9	22.0	749.7
IBM	16.8	16.0	15.1	9.4	13.1	12.7	14.1	13.3	12.5	10.3	13.3	160.5
Samsung	10.2	12.3	13.1	21.1	—	7.1	10.9	8.3	7.3	7.5	10.9	157.2
HP	34.7	18.9	18.9	11.2	16.4	11.4	7.8	—	10.7	15.3	16.1	70.0
Lenovo	22.8	—	26.9	4.7	—	22.4	16.9	18.3	17.2	15.5	18.1	13.9
Average of non-Apple	21.1	15.7	18.5	11.6	14.8	13.4	12.4	13.3	11.9	12.2	14.6	100.4
Difference of Apple—average	17.6	15.1	25	4.2*	5.8	4.6	(.9)†	(1.2)	2.0	2.8	7.4	

Table 53.2 Apple's Intangible Value, 2005–2014

*Worries about Steve Jobs' health becomes investor concern and many rumors spread. Bloomberg mistakenly publishes Jobs' obituary.
†Jobs granted medical leave in January and resigns in August for health reasons. He passes away six weeks later.

Talent managers can prepare charts to communicate the value of the intangibles and talent to the business. We have prepared dozens of these charts, some showing a firm's talent premium (like Apple) and others showing a firm's deficit. These charts enable talent managers to link their work to investor value.

Even when investors recognize the variance in market valuation resulting from talent, they often lack a rigorous way to understand and track talent. Talent managers need to prepare a simple but robust way to discuss talent with investors. When we interviewed investors, they almost uniformly agreed that people matter and that talent management processes should affect their valuation of the firm. Talent managers can rely on what we call the *leadership capital index,* a quantified measure of quality of the organization's leadership, to give investors confidence in quality of leadership overall and talent in particular. One firm reports employee productivity and well-being indicators to investors; another reports succession data; and another is working to report the leadership capital index. Talent managers might prepare presentations on talent for investors that might be 10 to 15 percent of investor calls or road shows. This might be a talent manager preparing talent metrics as part of the investor calls or it might be working to help investors recognize the quality of leadership within the organization.

To give investors more confidence in future earnings, for example, Buffalo Wild Wings intentionally gives investors exposure to its broader leadership team; as opposed to companies more traditionally limiting exposure to only the CEO, CFO, and their investor relations professionals. They host an investors day where the entire leadership team plays a role in sharing direction and strategy, add the COO to the question-and-answer portion of quarterly earnings calls, and have other C-level leaders (including CHRO) join the CFO on investor visits to show leadership depth. Through this experience, investors have more confidence not just in the CEO as a leader, but also in the systems that create future leadership.

Investors who want asymmetrical data on a firm's future performance will come to rely more on assessments of talent and leadership. General managers and HR professionals who want to win the war for talent will increasingly focus on the value of leadership and organization systems that create a pipeline of talent that can be appreciated and tracked by investors.

Talent Matters Conclusion

Quality of talent clearly impacts employee and organization outcomes. In some cases, unique individual talent (e.g., a scientist, rainmaker, or innovator) helps organizations succeed. But, looking ahead, talent also impacts stakeholders outside the organization including boards of directors, customers, and investors. When talent ideas and tools connect to these stakeholders, more value is created.

Talent Is Not All that Matters

When focused on the value of talent for organization outcomes, it is quickly apparent that organization outcomes (to customers or investors) do not come just from talent. Winning the war for talent requires moving beyond an individual focus to looking more carefully at how individuals come together to form an organization.

A vulnerability of the talent paradigm is that it focuses on optimizing individual contributions.[8] The term *talent* inherently focuses on ensuring that companies have the individual talent necessary to achieve their purposes. Certainly having individual talent is a critically important agenda for any organization. However, by focusing primarily on individual contributions, the talent movement, by definition, succeeds in making the organizational whole *equal* to the sum of the parts. This overlooks the central contribution of organization to make the organization whole *greater* than the sum of the parts. It is this integrating and leveraging function of an organization that creates sustained competitiveness.

What Is Organization?

Organization may be defined in many ways. When we ask participants in workshops to draw an organization, they almost always draw some form of hierarchy with boxes for roles and responsibilities. In today's rapidly changing business world, the challenge of building the right organization complements the talent challenge.

One of the challenges to facilitate building the right organization is that there are related concepts, terms, and prescriptions that require clarity. A simplistic view of the evolution of organization thinking is shown in Table 53.3. It shows that the most recent metaphor for organization is about organization as capability.[9] Organization capabilities represent what the organization is known for, what it is good at doing, and how it allocates resources to win in its market. Organizations should be defined less by their structure and more by their ability to establish the capabilities required to win—that is, to serve customers in ways that competitors cannot readily copy. Organization capabilities might include ability to respond to or serve customers, drive efficiency, manage change, collaborate both inside and outside, innovate on products and business model, access information, and establish the right culture.

Theme of the Organizational Movement	Founding or Exemplary Authors	How to Characterize an Organization	Focus of Organizational Improvement	Current Applications
Efficient ↓	Frederick Taylor	Machine with parts	Standard operating procedures	Reengineering to drive efficiency
Bureaucracy ↓	Max Weber Alfred Sloan	Morphology and shape by looking at clear roles and specialization	Clear accountability with roles and responsibilities	Multidivisional firm; strategic business units; matrix; delayering
Systems thinking ↓	Bob Katz and Daniel Kahn; Jay Galbraith; Dave Nadler and Mike Tushman; Dave Hanna	Organization aligned to environment; integrated systems within the organization aligned	Connecting systems to one another (e.g., sociotech); organizational diagnosis of systems	Customer-centric organizations; horizontal organizations; organizational audits
Capability	C. K, Prahalad; George Stalk; Bob Kaplan and Dave Norton; Dave Ulrich and Norm Smallwood	Capabilities within the organization	Diagnosing and investing in key capabilities	Cultural audits; process improvements

Table 53.3 Approaches to Creating the Right Organization

The most common view of culture is that it represents the pattern of shared beliefs and values that affect how people think and act in the organization. In this regard, the image of culture is the roots of the tree or the unseen iceberg below the surface of the water. Pivoting to the right culture focuses what the organization should be known for by key customers and uses this desired/aspirational/idealized external identity to shape internal thought and action. Culture is less the historic roots of the tree and more the fruit and future roots that the tree produces; culture is less that which is hidden under the water, but the direction in which the iceberg is headed.

It is interesting to note that the Chartered Institute of Auditors has prepared recent documentation to help auditors monitor culture, which is obviously a part of what makes an organization.[10] It uses two approaches to audit culture. First, it incorporates culture into traditional audits, through techniques like root-cause analysis, identifying the origins of how problems lead to bad actions, and then connecting problems across audits. Second, it audits cultural indicators across the organization using individual behaviors as surrogates for culture. The institute's report focuses a great deal on ethics and values. Values are obviously a part of culture, but not the only part of a much broader view of culture as a collection of action and capabilities. In addition auditors lament that "the use of gut feel plays a part in the audit of culture and this is likely to take many internal auditors out of their comfort zone as they are used to reporting on hard facts." Traditional auditors may be moving out of their comfort zone when assessing culture, which opens the door for talent managers to gain some responsibility in formal auditing.

With this logic, managing talent matters, but turning individual competencies into organization capabilities matters even more. Culture, then, becomes a critical capability that shapes what an organization is known for and how it operates in the marketplace. Culture helps make the organization whole greater than the individual parts.

Why Organization Matters

The evidence of organizations mattering more than individuals comes from many sources. Historically, about 20 percent of films winning the Academy Award for best picture also win the award for best actor or actress. In the NBA, about 15 percent of the time, the team with the top scorer also wins the NBA championship (5 percent without Michael Jordan). And, when Michael Jordan led the league in scoring and his team did not win the NBA championship (4 times), he averaged 34.55 points per game. In the six years that he led the league in scoring and won the championship, he averaged 30.5 points per game. About 20 percent of the time the winner of the Golden Boot (best player in soccer's World Cup tournament) is also the winner of the World Cup. In hockey, the leading scorer wins the Stanley Cup about 25 percent of the time. So great individual talent matters, but organization matters more. Individuals can be champions, but teams win championships.

There are relatively few research studies of the impact of organization versus individuals on firm performance. We recently conducted research on competencies of HR professionals (individuals) and capabilities of HR departments (organizations) and their relative impact on business performance. We found that across 1,500 organizations, organization-level activities explained about four times more of the variance in business performance than the knowledge and skills of individuals. The value created for key stakeholders from individual competence and organization capabilities was equally profound, with the organization level issues explaining much more stakeholder value than individual competencies (see Table 53.4).[11]

The results shown in Table 53.4 are remarkable. Organization capabilities are four times as important as talent in predicting business performance (7.7 percent to 31.0 percent), and this same ratio applies pretty much equally when serving different stakeholders. These findings imply that the war for (individual) talent may be less critical than the victory that comes through organization capabilities. Culture is one of the key capabilities of an organization.

	Business Performance	Stakeholders for HR					
		External Customers	Investors/ Owners	Communities	Regulators	Line Managers	Employees
Individual Talent	7.7	19.8	12.2	17.8	22.4	15.3	16.2
Capabilities/Activities of HR Departments	31	46.5	52.4	52.8	41.7	60.7	59.8
Other Variables (e.g., strategy)	61.3	33.7	35.4	29.4	35.9	24	24
Multiple Regression R^2	45.2	52.5	49.5	39.5	36.9	51.6	57.2

Table 53.4 Percentage of Variance in the Value the HR Department Creates for Stakeholders Explained by Different Variable Groups (column totals 100)

What Culture Means

It is important to be clear about what culture means and how to manage it. One of the challenges of managing culture is that it has become a Rorschach test for those interested in organizations. The concept of culture clearly matters, but it seems impossible to articulate or define with any unified precision.

We propose a three-stage evolution of defining what culture means. Phase 1 is culture as seen through symbols, rituals, stories, and other organization events. Employees experience or see these cultural artifacts when they enter or join an organization. Phase 2 is culture as seen through how it shapes how people think, behave, and feel in the organization. Culture shows up in the values, norms, unwritten rules, emotional responses to or flows of how things are done in a company. This is the prevailing concept of culture today. Phase 3 defines culture as the identity of a company in the mind of key customers (and investors), made real to all employees throughout a company. This means that an outside view of culture (as defined by key customers) shapes the right culture, or the one that creates value for customers. This does not ignore values, but ensures that there is profit/merit in the values because they shape customer expectations and actions. When employee actions are consistent with these external promises and perceptions, a winning culture follows. A winning culture is when the promises made to customers, that create an identity in the marketplace, shape/transform employee behaviors inside the organization to ensure that customers see these promises, which reinforces the customer's comprehension of company culture. Thus, Southwest Airlines wants to be known for low price with a fun experience; Marriott for exceptional service; Apple for design and simplicity; Google for innovation. These firm brands or identities should then become the essence of each company's culture.

Each of these phases of cultural definition affects employee engagement. In phase 1 (symbols), employee effect comes from organizational events. In phase 2 (values, beliefs), employee engagement comes from enacting the organization's values. In phase 3 (outside-in), employees are engaged in actions that increase customer share by creating culture-based customer bonds. Employees may be engaged in a host of behaviors, but when they are engaged in fulfilling promises made to customers, their engagement has positive business impact.

Going forward, a company's ideal culture should be defined by its desired external firm brand or identity. The collective way of thinking, behaving, and feeling (employee engagement) within the company is the internal cultural manifestation of external (branding) promises. To leverage culture, it is not enough to have or recognize cultural artifacts (phase 1) or to shape how people feel, think, and act (phase 2), but to ensure that people feel, think, and act consistent with promises made to customers and other key stakeholders (phase 3). When these internal employee actions are embedded within the organization systems and processes, culture becomes a key capability that helps organizations win in the marketplace. With an outside-in perspective, general managers and HR professionals make sure that the internal culture and the HR processes through which the ideal culture is created and sustained directly reflect the external brand promise. Thus a marketing manager should become a close confidant of any shrewd talent manager.

Talent becomes one of these key processes because it ensures that each employee fits with the desired culture. This means that talent should reflect the brand or identity of the firm in the marketplace as translated into the right culture and right capabilities. Leadership brand exists when employees look at their leaders and see in their behaviors the promises made to customers. Embedding the leadership brand originates in the selection, development, evaluation, and promotion of leaders who reflect the desired culture. Leadership brand leads to an employee brand where employee engagement becomes the norm.

Conclusion

No one denies the importance of talent. A thoughtful mentor grilled into one of the authors that organizations don't think, people do. But, organizations shape how people think, feel, and act. With this in mind, we envision two emerging talent agendas: (1) showing the impact of talent on boards, customers, and investors outside the organization and (2) pivoting from just talent to organization and culture. A robust future talent agenda delivers both internal and external outcomes for both individuals and organizations.

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Chapter 54

HR Levers that Drive Business Results

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Introduction

After more than three decades in various human resources functions in roles ranging from individual contributor to executive, I wanted to write a book that would pass along insights I acquired over the years. This motivation came partly from several respected colleagues who have been very helpful to my career, including Dave Ulrich who wrote the Foreword to my book. I also hoped to have a different point of view, tell a unique story, grab people's attention, focus on business issues, and provide a meaningful resource for the profession.

I also wanted to expand the book's treatment of *Driving Business Results.* HR has always sought to add more value to a business; but what exactly does that mean? It is easy to say but hard to know what to do. The word *lever* is a useful way to describe how HR can influence individuals, teams, and organizations to improve and flourish. Seven specific levers are described and quantified in this chapter. But to appreciate the specific ways in which HR becomes a "force-multiplier" and drives business results, it is important to understand the story behind "Fearless HR" in the first place, the value of a unifying purpose for the profession, and a framework to calibrate business impacts.

The Fearless HR Story

The genesis of my book *Fearless HR* came from two conflicting views of the human resources profession: one very critical and one extremely hopeful. On the one hand, HR has been viewed as a second-tier, support function for decades. In 2005, Keith Hammonds, in an article titled "Why We Hate HR," captured the view that HR was often a barrier, too process-driven, not focused on the needs of the business, and lacked visionary talent. But Hammonds was not the first, nor would he be the last, to offer this analysis. Several decades earlier, Professor Wickham Skinner referred to the human resources profession as having a *big hat, but no cattle.* When this phrase is translated from Texan, it means that HR is all talk and no action. And in 2015, the *Harvard Business Review* ran a cover story about blowing up HR for many of the same reasons.

There are reasons for these less than positive reviews. First, HR is a relatively new profession. The first known HR organization was established in 1901 at the NCR Corporation in Dayton, Ohio, to deal with a contentious labor situation. Compared to operations and finance functions, for example, HR is a neophyte on the scene; and it is reasonable to assume that many of its models, processes, and disciplines are still maturing. Second, it is certainly true that HR has an administrative legacy. The precursor to the largest HR organization in the United States was the American Society of Personnel Administration, and this name does not connote a forward-thinking, agile collection of professionals. It is also true that HR is part of the overhead of an organization; and indirect labor is not perceived as being as valuable as people directly involved in making or delivering products. These perceptions of HR—many of which were based in an economic era that valued process, hierarchy, and internal systems—continue to be prevalent in people's minds today.

The hopeful message is that HR can make a huge difference in organizations, especially as the marketplace shifts to rewarding innovation, agility, collaboration, and global partnerships. The major portion of the market value of a company is now determined by intangible assets; and intangible assets are driven by people. As a result, a very valuable lesson is being learned: *Before success in the marketplace can be achieved, a company must first be successful in the workplace.* This theme is reinforced again and again by leading economists, eminent researchers, global consulting firms, respected thought leaders, and legendary CEOs. Herb Kelleher, the lionized retired CEO of Southwest Airlines, has an aptly titled video on YouTube that says succinctly, *"The Business of Business Is People."*

The tension between these two perspectives is palpable. Both the critical and hopeful views exist, despite being seemingly contradictory. This tension became an important part of the *Fearless HR* storyline, as I came to understand that for HR to move forward, it must first candidly address its past. It is very difficult to change familiar and comfortable viewpoints, especially as a profession tries to reinvent itself.

It turns out that artists and writers have understood the importance of reconciling the past for centuries. The philosopher George Santayana famously said, "Those who do not remember the past are doomed to repeat it." The bard, himself, wrote, "What's past is prologue," in *The Tempest* in 1611. And in 1882 Mark Twain introduced us to the inept detectives who failed to spot the *elephant in the room* standing right in front of them. Fast forward to the twenty-first century when Charles Duhigg (2014) reminded us that old habits are hard to break and old stereotypes are hard to discard. Our brain seeks easy and familiar paths, and these connections impact behavior more than we consciously realize. Without acknowledging and addressing these past perceptions, we are simply ensuring their continued existence.

This theme of reconciling the past is a cornerstone of *Fearless HR*. Part I of this book identifies five historical perceptions of HR:

1. It adds no value to the business.
2. It is too siloed and inwardly focused.
3. It is a weak discipline with poor tools.
4. Its measures are too soft and subjective.
5. It is a stodgy, dead-end career.

Have you heard these perceptions expressed? Most of us would answer in the affirmative, and yet they are often left unchallenged or even acknowledged; and as a result, nothing much changes. *Fearless HR* holds up these perceptions to the lens of current research and best practices. Over 120 research findings and 45 specific tools are presented to analyze the veracity of these perceptions today. The recommendations may surprise you.

There was one more storyline theme that needed to be identified and isolated before *Fearless HR* could take shape.

The Value of a Clear, Articulated Purpose

HR has been known by many names over the years. At the turn of the twentieth century, HR was labeled industrial relations. It then morphed into such titles as personnel, administration, human relations, human resources, human capital, people operations, and, well, you name it. These name changes doubtlessly reflect the different market forces and leadership demands of the times; but they also seem to be indicative of a profession that is unsure of its core purpose and mission.

A profession, such as HR, is composed of a community of professionals that takes on many characteristics of an organization. A profession has a culture, just like countries and companies do. A profession has a way of doing business and making decisions that distinguishes those within the profession from those outside it. A profession has standards and credentials that provide a path for further learning and development. But if a profession is not clear about its purpose and goals, then everything can break down.

We know the value of purpose to *individuals*: it is a huge motivating factor. In *Drive,* Dan Pink (2009) identifies autonomy, mastery, and purpose as the three most important motivators for business professionals; and in *Primed to Perform*, Doshi and McGregor (2015) describe play, purpose, and potential as the source of motivation in high-performing cultures. People want to believe in something larger than themselves. Purpose can emanate from a variety of sources, including what you do, how you behave, the values you demonstrate every day, and community activities you support. Purpose matters to individuals, companies, and professions alike.

Consider Apple's statement of purpose, and ask yourself if this vision is important to most of its employees.

> Our products connect people everywhere, and they provide the tools for our customers to do great things to improve their lives and the world at large. Our company is open to all, and we celebrate the

diversity of our team here in the United States and around the world—regardless of what they look like, where they come from, how they worship or who they love.

HR's purpose must look beyond silos, internal preferences, and compliance practices to see the bigger picture of the business. Peter Drucker was the master of short, incisive statements that often challenged convention. In his words, "The purpose of business is to create and keep a customer." It's not about profit maximization, an exclusive focus on shareholders, or crushing the competition. Drucker identified the essence: keep things simple and present something that people can follow. Applying Drucker's conventions, it is clear that HR is part of a larger entity, and its purpose should be to make that entity as successful as possible. *The purpose of HR, then, is to drive business results*.

There is growing recognition that HR's purpose and the business's purpose are one in the same. More than 75 percent of HR organizations are reorganizing themselves to become closer to the business. Ulrich and others have described the evolution of HR as moving from polite to police to partner to player.

While being employee advocates (polite) and identifying compliance issues (police) are important, they are no longer sufficient for providing value and driving business results on a continuing basis. Instead the emphasis must be on the partner and player side of the continuum.

Dave Ulrich uses a clever activity to assess the business focus of internal groups. He asks a simple question, "How's business?" If the answers are about internal practices, issues, and contentions, he knows it will be a long day. If the replies focus on the big picture, customers, innovation, the marketplace, competitors, and different possible futures, it will be a much more productive day. This simple test assesses the group members' foundation and alignment: Are they internally focused or do they understand that everything starts with strategy and the business's value proposition? Are people acting as business owners, regardless of their role or position? Are employees aligned to doing what is most important for the organization? Do people realize that the HR agenda is the business's agenda?

A clear, articulated purpose has many benefits. It enables better choices to be made because goals are unambiguous and shared. Accountabilities are explicit, and expectations are realistic. When HR's purpose of "driving business results" is embraced, it provides sharper focus, stronger alignment to the business, more relevant prioritization, and improved professional confidence. A shared and accepted purpose also enables a profession to see the path forward and act with stronger conviction.

Measures that Matter to Business Leaders

The two key themes of *Fearless HR* that emerged are: (1) a changing profession must confront its past before embarking on its future course, and (2) if a profession is uncertain of its purpose, it can't be successful. HR's purpose is to drive business results (*period),* and this becomes a shared vision that can be embraced and then executed. Now, the key question becomes how does HR drive business results on a consistent basis? What levers can HR adjust to impact better performance?

It is first useful to consider a spectrum of measures that companies use. There are four broad categories of human capital measures arrayed in Figure 54.1.

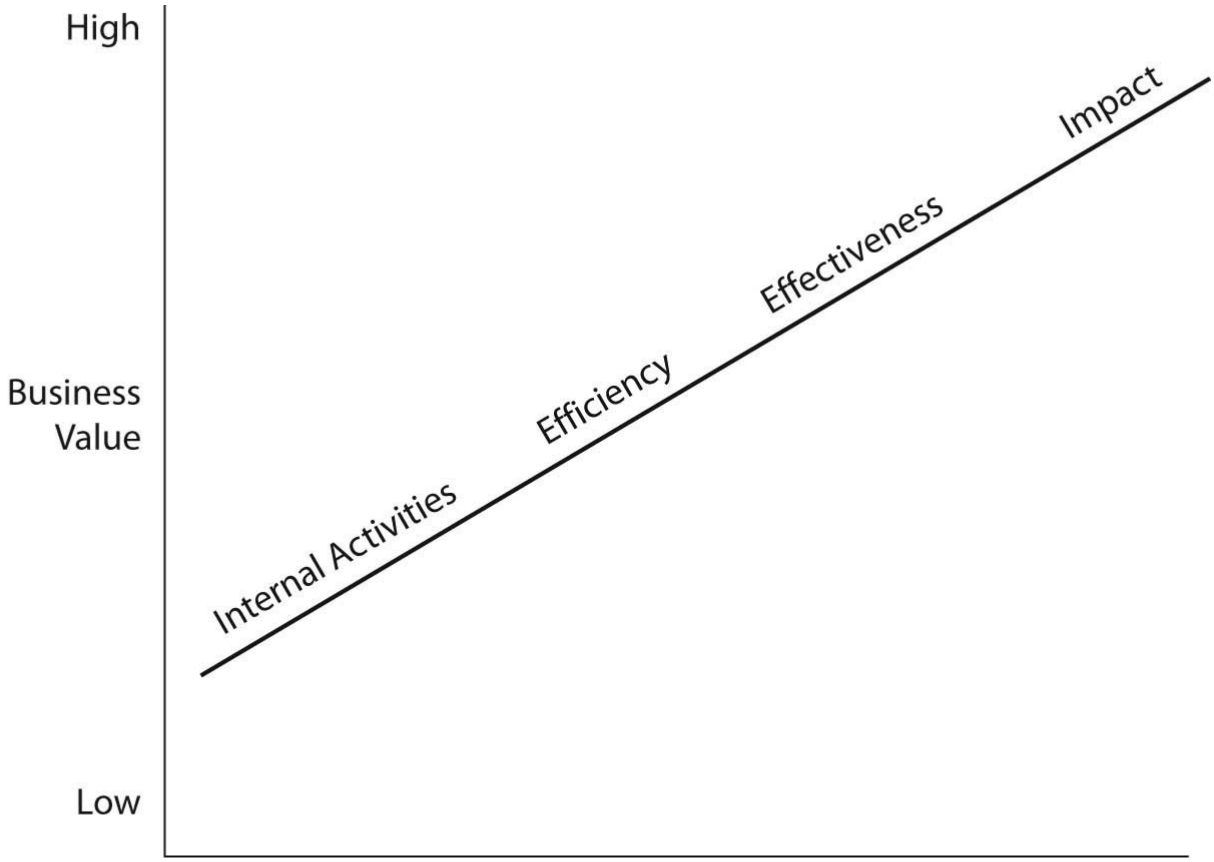

Figure 54.1 Categories of Human Capital Measures

HR has often measured what is easiest to measure, not what is most important to the business. HR measures tend toward internal activities and efficiencies. Examples of internal activities are: number of hours in training, number of open requisitions, and percentage of internally versus externally developed leaders. An example of efficiencies in talent acquisition is *cost to hire.* The problem with internal activities and efficiency measures, however, is that they say nothing about quality and impact on the business. It is very possible, for example, to have a cost-efficient recruiting practice that supplies all the wrong candidates to the business.

Business leaders are much more interested in effectiveness and impact measures. These measures are what matter to the business, and they are also probably how each leader is evaluated. To continue the discussion of recruiting measures, business leaders are much more interested in how well new candidates are doing their jobs (quality of hire) and if they are adding tangible value to the business (adding incremental revenue or reducing costs). If business leaders focus on effectiveness and impact measures, then HR leaders should as well.

More specifically, there are at least five ways in which HR can impact business results. Each of these can save time, money, and resources and strengthen competitive positioning:

- *Strategic alignment:* Not wasting time and energy on misaligned projects. Close fit to strategy, strategic initiatives, business goals, and competitive issues.
- *Talent optimization:* Having the right people with the right skills in the right job, leading to an engaged, loyal, and committed workforce.
- *Cost savings:* Streamlining processes, eliminating waste and reducing costs.
- *Productivity improvements:* Becoming proficient faster and doing more with the same or less resources.
- *Improving outcomes:* Enhancing important business results, such as stronger revenue, profit, quality, brand-strength, innovation, and supply chain effectiveness.

These various outcomes are often interrelated. An engaged workforce, assigned to a strategically important project, will likely lead to productivity improvements, saved costs, and stronger outcomes. But this spectrum is important because it illustrates the many ways that HR can impact the business, and not just through cost savings or taking away valued programs. In some cases, these actions need to be taken if organizations are struggling; but HR's potential impact is far greater in generating improvements than in cutting costs.

The amount a firm can save by reducing inefficiencies in HR processes is usually insignificant compared to the amount it can gain by building a more talented and engaged workforce.

—*Steven Director, 2013*

Seven Specific HR Levers

HR, in general, does a poor job of demonstrating its value to the business. Other functions are much better at promoting themselves. A key step in rectifying this deficiency is to articulate the business impacts of HR initiatives and monetize them. Money is the language of the business, and it is understood by all. And while it may be difficult to quantify the benefits of some HR initiatives over time, it can be done. Every other group in the organization is usually quite adept at building business cases; HR must do the same.

The relatively simple example of conveying the impact of unwanted turnover makes this point clearly. There are three ways to describe unwanted turnover in organizations. Which is most compelling?

- *Message 1:* “Our annual turnover rate for employees we don’t want to lose is 14 percent.”
- *Message 2:* “It costs the organization 1.5 times a person’s fully burdened salary when we lose a person we do not want to lose.”
- *Message 3:* “Cisco knows that if it loses a single, valued engineer it costs the organization $250,000. You lose four of these people and it is a $1 million issue.”

The first message conveys a general benchmark that provides an estimate of where an organization stands vis-à-vis its industry cohorts. This can be informative, but as we will soon see, summary percentages often hide important variations that need to be analyzed. And this message is not likely to prompt business leaders to act. The second message is a bit more compelling because it converts an issue into monetary impact—although it is still not specific enough and it pertains to any employee who leaves, regardless of role or performance level. The third message is the most impactful because it does put a dollar amount on the loss, and it does zero in on the critical role of engineer. While perhaps these distinctions seem small; words and positioning do matter, especially when trying to influence business leaders.

Now it is time to get specific and move beyond the spectrum of ways that HR can make a difference. *HR levers* are specific actions that enable the business to have greater impact. Seven specific levers are addressed, and they run the gamut of measures that pertain to talent, recruiting, global operations, and innovation.

Lever 1: Turnover of High Performers

An organization’s summary turnover percentage is a general benchmark that may provide an interesting comparison to industry cohorts, but it is much more useful to segment turnover data to focus on specific audiences, groups, and conditions. Probably the most valuable metric to track on a regular basis is the turnover of high-performing employees.

There are at least two business reasons why this metric is critical to monitor. The first is that, by definition, these employees are very valuable assets. A number of studies have attempted to quantify the value of top versus capable performers, and the factor that emerges time and time again is: five (Anders, 2011). A great performer outperforms his or her peers by a factor of 5 to 1 primarily through hard work, grit, diligence, applied intelligence, and practice.

The second reason to track this metric is that high performers have more options. They are highly regarded both internally and externally, recruiters know who they are; and they are potential flight risks. Roughly 20 percent of an organization’s high performers are likely or very likely to leave the organization within six months. This percentage can rise and fall with economic and competitive conditions.

The Value of High Performers Who Leave

Organizations such as Merck and E & Y (as reported in Cascio and Boudreau, 2008) have identified that the cost of unwanted turnover is 150 percent of a person’s fully burdened salary. This 150 percent figure increases as a role requires greater skills, experience, and seniority than typical knowledge-worker jobs.

Sample Calculations

It is relatively straighforward to calculate the value of losing a high performer. It is five times the fully burdened costs of replacing a competent employee:

- For a high performer with a fully burdened salary of $100,000, the cost of losing this person is $750,000 (150 percent of $100,000 times the high performer factor of 5).
- For a high performer with a fully burdened salary of $150,000, the cost of losing this person is $1,125,000.
- For a high performer with a fully burdened salary of $200,000, the cost of losing this person is $1,500,000.

Ideal Balance

The loss of a single high performer can be very significant for the organization. The ideal turnover rate for high performers is 0 percent, but this is unrealistic; and most organizations try to keep high-performer turnover at a 2 to 3 percent level.

Lever 2: The Value of Internal Hires

Many organizations have active internal hiring programs, but usually these internal efforts take a back seat to the more traditional external hiring practices. One reason has been that companies have put too many barriers in place to restrict an open talent marketplace in which internal movement can occur freely. While, on average, about 70 to 80 percent of a company's hires come externally, companies today need to buy *both* internal and external talent to fill needed skill gaps.

The Value of Internal Hires

Table 54.1 depicts the range of impacts for internal as compared to external hires. External hires, of course, have many benefits including a larger talent pool, greater diversity, wider talent networks, and less cultural bias.

Money	Time	Productivity	Assets	Risks
Replacement costs for an internal hire are about half those for external hires.	Faster time to fill for internal hires. Usually, months for external hires and weeks for internal hires.	Higher performance evaluations from internal hires. External hires catch up in two years.	Retain tacit knowledge and networks of internal hires.	Internal hires are less risky because cultural fit is stronger.
Compensation is about 15 to 20 percent less than that for external hires.	Shorter time to proficiency for internal hires. Internal hires still have to adjust to subcultural factors, but the magnitude of adjustment is less.	Greater quality of hire for internal hires. Relatively high failure rates for external leadership hires: 40 percent failure within 18 months.	Improved employee engagement and retention by deploying internal talent.	External hire failure rate is 40 to 60 percent compared to 25 percent for internal hires.

Table 54.1 The Value of Internal Hiring

Achieving the Right Balance

Organizational context is very important in trying to determine the right balance between external and internal hires:

- Is the organization successful or struggling? Is the company in a turnaround situation?
- Are there likely significant changes on the horizon?
- Are there needed skills and attitudes that are not present in the internal workforce?
- Are internal talent pipelines and succession plans in place?
- Have steps been taken to help talent be more portable?
- Are there impending factors that could impact the external supply of talent?
- Is the internal and external supply different for different roles?

As mentioned previously, it is not a question of which strategy to pursue, because *both* internal and external hires will be required. But the "what is—should be" balance is the more appropriate staffing question. It is critical to know what the current state is (i.e., the actual percentage of internal and external hires), and then to ask the question, "What should it be for optimum leverage?" The answer to this will likely vary for different roles and time periods, but it is a critical HR lever that should be understood and rationally executed.

Sample Application

The financial benefits for internal versus external hires are not widely understood, but they can have a sizeable impact on the organization:

- The cost to replace a good employee by hiring externally is 1.5 times a person's fully burdened salary. For a person with a salary of $120,000, the fully burdened salary would be $150,000. External hiring costs would then be $225,000.
- If this same position was filled internally, the costs would shrink to one-third to one-half of this figure. The primary reasons are less cost to hire, quicker fill rates, and faster time to proficiency. Other potential benefits may also pertain (such as lower salary, reliable performance data, and reduced turnover risks).
- For each internal versus external hire (at the fully burdened salary of $150,000), the organization saves $74,000 to $112,000 (for the one-third to one-half savings, respectively). These savings, of course, increase as salary levels go up.

There is one other business impact of internal hiring that has not been described at all. Lee Hecht Harrison cites data that say that companies with strong internal hiring programs outperform industry cohorts that do not by demonstrating greater top-line growth (12 percent more revenue).

Lever 3: Global Staffing Options

As companies pursue growth, they inevitably turn to global marketplaces. Regardless of the location of a company's headquarters, global opportunities are far greater than domestic ones for most products and services. Boeing, a venerable, century-old American company, has seen its global revenues eclipse domestic ones since 2011. Several decades ago, Brazil, Russia, India, and China (BRIC) were the focus. While growth in the BRIC has slowed, they are still major players. But global playing fields shift quickly as foreign direct investment (FDI) now goes to new players such as the MINTS: Mexico, Indonesia, Nigeria, Turkey, and South Africa.

As companies pursue international revenue, the shift to become a truly global organization can be very arduous. A whole variety of changes must be made from compensation and benefits to IT infrastructure to governance to talent practices to communications to cultural mindsets. A number of excellent sources have addressed the types of adjustments that must be made for an organization to function smoothly on a global basis (e.g., Claus, 2014).

In global organizations, employee headcount should roughly approximate the geographic distribution of revenue. If, for example, 40 percent of a company's revenue comes from India and China, it is expected that a similar percentage of the workforce would reside in these countries. Global customers expect local presence (not just sales offices), and often demand offsets to justify their investment. Companies, therefore, must build local service and production capability far away from the comfort of home offices. There are typically three types of staffing options for new or developing global locations:

- *Local nationals.* Also known as host country nationals as these employees are hired to fill jobs in their own country.
- *Third-country nationals.* These are employees from neither the home nor host country; they are often technical or professional employees working on projects and are considered to be international freelancers. Example: a person from India working on a project in Indonesia.
- *Expatriates.* Defined as professionals asked to work outside their home country for a period of time, with the expectation of returning home. The term "headquarters expatriates" applies to employees from the headquarters country who go on assignment to assist global operations and then return home.

Expatriates are often used to fill leadership and strategic skill needs in global operations. Expat assignments offer critical developmental experiences for future global leaders, while also helping to provide greater global consistency of operations across the world. But excessive reliance on expatriates can be costly and actually be an impediment to becoming a true global organization. The costs of expatriate assignments are significant, ranging from *1.5 to 6* times the cost of a similar job performed at headquarters. If the expatriate package is compared to local nationals, the variation can be up to *20 times* for a similar job in the host country.

Sample Calculations

Context means everything in global staffing considerations. Local laws, policies, cultural norms, and compensation packages are dramatically different around the world. The cost for an expat from the United Kingdom, for example, is very different from one from India or Chile. It is critical to have global legal and compensation experts directly involved in expat assignments and in standing up and transitioning global operations. Given these caveats, HR can save the company millions of dollars by developing alternatives to expensive expatriate assignments. A fully loaded expat package for a middle manager in China, for example, is at $300,000 per year; and many assignments are at a higher level than middle manager.

Achieving the Right Balance

As in all staffing equations, it is first important to know the current distribution of expats, local nationals, and third-country nationals in the workforce. This is the "what is" factor. Then it is important to decide what is the optimum balance that should exist as time passes (the "what should be" variable). According to Reynolds (1995), the optimum balance between "what is and what should be" is a decrease in expatriate assignments as local talent becomes more capable; and a greater reliance on local nationals so that they eventually become global staffing options around the world. The speed of this transition varies, but it has considerable financial impact. Among the specific levers that HR can apply are implementing faster development programs for local nationals, identifying less costly third-country nationals to replace expatriates, and developing stronger local educational pipelines.

Lever 4: The Costs of Vacant Key Positions

A very popular recruiting metric is *time-to-fill* an open position. Time-to-fill commences when a position is posted while a similar measure, *time-to-hire* begins with the contact of a candidate and concludes with his or her eventual hire. Each measure tells you something different about the hiring process; but both are measures of efficiency.

Efficiency measures, as we have seen, are important to track, but they are no longer sufficient by themselves. It is possible, for example, to have a very efficient hiring practice that does not improve the business at all. Business leaders are more interested in measures that have a direct impact on the business such as effectiveness, quality, and impact. The key questions become: Are we hiring the right people and are they doing a good job? Is the candidate experience successful? Are the people we hired making an impact on the business?

But something interesting happens when an efficiency measure such as time-to-fill is re-conceptualized: it can get noticed. The flip side of this same efficiency measure is the *cost associated with vacant positions*; and since this is expressed in dollars, not days, it grabs attention more quickly. According to John Sullivan, the cost for a vacant key or leadership position can range from *$7,000 to $12,000 per day.*

Sample Calculations

There are two important factors in making the calculations on costs for key vacant positions. The first is the emphasis on *key* roles. All jobs are not equal in their strategic value to the organization. In workforce planning, different roles (or groups of jobs), are segmented and the top segment usually includes 10–15 percent of a company's roles that impact strategy and competitive differentiation. These roles, along with leadership positions, are the ones that should be calculated. Commodity and noncritical jobs are needed to keep the company operating but are not essential to its value proposition. Given the heavy workload of most recruiters, it is most useful to focus on the subset of jobs that really make a difference and would be a risk to the company if not filled with excellent candidates.

The second factor is how to calculate a position's value. The four types of commonly used value calculations are:

1. Position-specific outcome data can be used for jobs such as sales and production positions with quotas or expected contributions. It is relatively easy, for example, to track sales made or widgets produced.
2. If no position-specific outcome data exist, the proxy variable of revenue per employee can be used. This calculation assigns the same value to each employee regardless of role. These data (total revenues and total employee headcount) can be gathered from public financial statements or commercial business websites. A complicating factor for this measure is if a significant number of contingent workers are deployed. The definition of "full-time equivalent" becomes important to standardize.
3. An employee's salary is a proxy measure for value provided. Common sense indicates that a person wouldn't be paid a salary if he or she was not providing commensurate value. This measure is position-specific (salaries vary with role) so it has advantages over the "revenue per employee" measure; but it is probably the most conservative proxy measure as most experts expect return to be a multiple of salary, not just the salary itself.
4. A salary multiplier can also be applied, usually ranging from two to seven times. Sullivan reports a Harvard study that uses 3X as the best factor to apply; but this will likely vary by industry and perhaps company. This measure has the advantage of being role-specific and it also recognizes the fact that

companies expect that employees will contribute more than their salary to the organization. (For example, a consultant or lawyer who bills his or her time to clients understands that external fees are typically two to four times internal salary costs.)

Lever 5: Productivity by Engagement Level

Engagement has been an important topic since Gallup's work in the 1990s. While there continue to be different views about the actual definition of engagement (*Talent Quarterly*, #9); a number of correlational studies have confirmed the importance of engagement as a leading indicator of productivity and turnover. There is also debate about the degree of the engagement of the national workforce. This disagreement, in part, stems from consulting companies using different definitions and scales to measure engagement; and this often leads to widely disparate estimates of the engagement of the country's workforce, ranging from 30 to 70 percent. We are then told that poor engagement is a $350 billion national issue. This estimate is difficult to fathom, and how does a business leader do anything about a $350 billion engagement problem?

The Value of Productivity by Engagement Level for an Individual Employee

It makes more sense to address engagement on an individual employee basis, and to monetize the expected result. As we have seen, there are four ways to approximate the value of an employee. The Center for Talent Retention (CTR) studies use the most conservative estimate—the salary of an employee—as the proxy measure for productivity. The CTR studies are based on a four-point engagement scale, with productivity varying by level of engagement by 20 to 25 percent. Their findings are:

- *Level 4 is a fully engaged* employee who is 22 percent more productive than an employee who is (just) engaged (see level 3).
- *Level 3 is an engaged* employee who returns his or her salary in value to the organization.
- *Level 2 is an employee who is somewhat engaged* and who performs 25 percent below the baseline established by level 3 employees. These employees provide less than their salary in value to the organization.
- *Level 1 employees are disengaged* and are 45 percent below the productivity baseline. These employees provide much less than their salary to the organization.

Sample Calculations

Using these guidelines, the dollar impact of engagement can be calculated for an employee. For the sake of the following examples, a fully burdened salary of $100,000 is used as the average value:

- A highly engaged employee contributes $22,000 over and above his or her salary to the company. The total value of a highly engaged employee is salary ($100,000) plus the productivity boost (22 percent) which equals $122,000.
- An engaged employee contributes salary (i.e., $100,000) in value to the organization.
- A somewhat disengaged employee contributes 25 percent less than salary, and is therefore costing the organization $25,000. The organization is paying $100,000 in salary (cost) but only receiving $75,000 (value) in return.
- A disengaged employee contributes only $55,000 in value, and is therefore costing the organization $45,000.

Using this framework, once the number of employees, average fully burdened salary, and distribution of engagement scores are known, it is relatively easy to determine financial impact. Continuing this example of an average burdened salary of $100,000, a department of 500 people has the following engagement distribution: level 4 (highly engaged) = 12 percent, level 3 = 40 percent, level 2 = 39 percent, and level 1 (disengaged) = 9 percent. When the numbers are multiplied (average salary × number of people × engagement distribution × productivity factor) this comes to a $5,580,000 negative impact resulting from poor engagement.

Lever 6: Costs of Managing Poor Performers

There are a variety of costs associated with disengaged and poor performers. Lever 5 addresses the costs associated by level of engagement. There are other costs as well, and one of them is the cost of managing poor performers. The argument goes that managers spend an inordinate amount of time on poor performers and that this takes away from time they could be spending on other tasks, such as being with top performers who really drive the business. This "lost opportunity cost" can be both frustrating and costly.

Time Spent Managing Poor Performers
The first step in calculating costs for poor performers is to identify the amount of time spent managing them. Time can be measured by observing managers and detailing the time they actually spend on this group. This direct observation can be time consuming and costly, although it provides the most valid measure. Or a survey can ask people how they spend their time. Robert Half (2012) conducted a survey of 1,400 CFOs and found that managers spent approximately 20 percent of their time on poor performers.

Sample Calculations
If a fully burdened manager's salary is $100,000; then $20,000 is spent on poor performers. This figure can then be multiplied by the number of managers in the organization with a staffing situation. If an organization has 100 managers, this translates into a $2 million commitment.

Achieving the Right Balance
While this calculation is simple, the issue is more complicated. Two important questions to ask are: (1) how much time *should* be spent on this group, and (2) how long should this coaching and guidance go on? Context is critical because the reasons for poor performance can significantly impact both questions. For example, it is very possible that a poor performer is in the wrong job, has a terrible manager, is not using his or her strengths, or is being affected by a personal issue. These barriers can be addressed and possibly removed, thus providing opportunity for performance improvement. The Center for Talent Retention estimates that one-third of actively disengaged employees can be more productively deployed after corrective action.

On the other hand, continued poor performance, *especially as it relates to attitude and effort,* can be hugely demotivating for everyone involved. When disaffected workers "quit and stay," no one will want to be in the boat, let alone rowing it. This is why some advocate not spending any time at all on the lowest engagement levels and why companies such as Zappos and Netflix offer leave bonuses to speed action when a relationship is clearly not working.

The right balance is essential. Reasonable second chances are necessary for many of us, but time frames, accountabilities, and standards must be established. The organizational costs—especially for doing nothing—are simply too high and unacceptable.

Lever 7: Innovation

The ability to innovate is arguably the king of the intangibles. Nothing could be more important in a fast-changing world where entire industries cannot just be disrupted but disappear in a blink. There are two types of companies now—the quick and the dead. Will Rogers made a similar observation decades ago: "Even if you are on the right track, you'll get run over if you just sit there." There are far too many examples of companies that live on past successes, become complacent, and cannot recapture their momentum and incisiveness.

It is difficult to acquire or recapture your mojo, but HR has a significant role in creating the context in which innovation can occur. Lessons from best practices and research are that innovation is more likely to occur when:

- Diversity of viewpoints and perspectives are vital.
- Heterogeneous not homogeneous teams participate.
- Failure and risk are acceptable and even encouraged.
- Teams create psychological safety zones for contributors.
- New ideas are generated where traditional disciplines (such as physics and biology or psychology and economics) collide.
- Ground-up innovation programs solicit ideas from anyone. The best idea wins.
- Fun and friendly competition can be fostered by programs such as innovation fairs.
- Work spaces are designed so that different groups interact and connect.
- People closer to the actual work or processes have better ideas than those far removed.
- Innovation shouldn't be the province of an office or job title; it should be everyone's job.

Calibrating Innovation
Unlike many HR outcomes, innovation is actually easy to quantify. This is comforting because, as mentioned above, innovation is hugely important in today's competitive marketplace. There are three measures that should be used to track innovation. The first two are: (1) count the number of new products released in a given time period (usually a year), and (2) especially for scientific organizations, count the number of patents applied for and awarded in the same time period. Both of these measures give a pretty strong indicator of the output on an innovative engine.

The third measure is the most intriguing. The *vitality index* documents the percent of revenue that comes from new products released in the prior *n* years (Goldense, 2014). The only variable in this index is the number of years (*n*), and this can vary from industry to industry. The usual selection is three years, but it can certainly be more or less based on anticipated product life cycles. The actual definition of a "new product" should also be stipulated. For example, is it a new version or a modification of an existing product? But once the ground rules are established, this is a very valuable, insightful, and powerful measure.

Interpreting the Index

There are three ways to interpret the vitality index. The first is a comparison to previous years for the same company. This longitudinal analysis will reveal trends and direction: Are new product revenues increasing or decreasing compared to previous years? The second is to compare the index to other companies in the same industry. This benchmark provides a rough estimate of comparability among designated competitors. And the third is to analyze the results against an accepted criterion of, for example, 25 to 30 percent. Many experts believe that if your percentage of revenue from new products dips below 25 percent for a year, then there are issues to address. This is an industry-wide average standard; and it should probably be customized to each specific industry. The vitality index is a great measure because the whole point is to convert innovative ideas and products to revenue, hopefully sooner rather than later.

Innovation is too important an organizational capability to escape measurement and scrutiny. The good news is that it is relatively easy to do.

Human Resources: A Force Multiplier

These, then, are seven specific levers that HR can manipulate to have an impact on business results. There are many others that can influence better strategic alignment, talent optimization, cost savings, productivity improvements, and outcomes. All of these results are driven by capable, motivated employees; and HR, more than any other function, creates an environment in which talent and innovation can flourish. This is HR as a *force-multiplier* in which contexts are created that impact not just individuals but teams, departments, and entire companies. As Tony Parasida (2015) said:

> "Excellence in engineering leads to strong products.
> Excellence in finance leads to strong financial capabilities.
> Excellence in HR leads to a great company."

Conclusion

Fearless HR is a continuing story. It begins with a profession that had to acknowledge its past and view it through the lens of research and current best practices. The fact is that HR will always be part of its own history, so it must be acknowledged and reconciled. Then HR needed a clearer vision of its own identity and to cohere around a meaningful purpose that recognized its central role in impacting the business. This vision should be a simple, concise, and unequivocal statement. *The purpose of HR is to drive business results.*

So how does HR add more value to the business and make more of a strategic contribution? The bottom line is that HR must contribute *to the bottom line*. There are, in fact, many levers that HR can apply to save money, increase revenue, improve quality, and sharpen competitive advantage. The seven HR levers described in this chapter are just a sampling; but they can pave the way for even more examples of HR making a lasting, bottom-line impact. The more these business case examples are developed and aired, the better the positioning of HR as a leader; the greater the confidence of the profession; and the bolder and more fearless our expression. Let the *fearless* stories continue.

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Chapter 55

Eight Trends Shaping the Future of Talent Management Programs

Jacob Morgan, Speaker, Author, and Futurist

THE EMPLOYEE EXPERIENCE IS AN IMPORTANT FORCE THAT WILL SHAPE AN organization's approach to talent management. The environment created when an organization focuses on making itself a place where people want to show up instead of a place where people need to show up is the basis for the positive employee experience. This shift from "need" to "want" is a fundamental change for all organizations. At the core of the employee experience is a long-term organizational approach that puts people at the center, meaning core workplace practices are broken down and rebuilt to create greater mutual commitment between employees and their organization. Below are eight trends affecting the employee experience. It is important for talent management professionals to consider how these trends impact their talent management programs.

1. Challenges with Engagement

Poor results with employee engagement have left many business leaders scratching their heads wondering what they did wrong. Consider that according to Gallup (Gallup weekly news alert, October 13, 2013) which has become the global authority on this topic, worldwide employee engagement is at 13 percent, an incredibly low number. Perhaps what's more shocking is that this number has barely budged in years! Interestingly, Aon (Aon 2016 Trends in Global Employee Engagement) has global employee engagement of 65 percent for 2016, with a 3 percent improvement since 2014. Yes, this is higher than Gallup's number, but still low. The lack of results has caused organizations to take a close look at what they are doing and why they are doing it. Many companies like Accenture and Cisco no longer conduct annual employee engagement surveys.

It's also interesting that organizations question the value of annual employee reviews but are okay with measuring employee engagement every year. This makes no sense. In many cases, employee engagement surveys are simply replacing the annual reviews and are the very thing that organizations are trying to get rid of.

In most models, the ideal scenario for organizations is to get as many engaged employees as possible. Unfortunately, many organizations get so stuck focusing on engagement that they forget to take a step back to understand what causes engagement to begin with let alone understand the impact that engaged employees have on the organization. This means that engagement just boils down to a number, and a number without context is quite useless.

Employee engagement has been a wonderful tool for us to think differently about our organizations, but it's also been used as a bit of a crutch to justify the existence and importance of human resources (HR) as a function. We also have to remember that just because you measure something doesn't mean you improve it. While there's nothing wrong with continuing to measure employee engagement, it's time for us to look at a new approach for a rapidly changing world that is focused on the long-term designing of employee experiences that yield an engaged workforce. The whole point of employee engagement is to unlock the discretionary effort within employees. This is the amount of effort that employees could put in if they actually wanted to. But what does that mean? If you think about most of the interactions you have daily with various brands, you will realize that they are linear and static. There is little differentiation. How is it that some organizations are able to go above and beyond to deliver customer experiences? The answer is discretionary effort.

2. Skills Gap and Talent Shortage

A *McKinsey Quarterly* article by Richard Dobbs, Susan Lund, and Anu Madgavkar titled "Talent Tensions Ahead: A CEO Briefing" stated that, "new research from the McKinsey Global Institute (MGI) suggests that by 2020, the world could have 40 million too few college-educated workers and that developing economies may face a shortfall of 45 million workers with secondary-school educations and vocational training. In advanced economies, up to 95 million workers could lack the skills needed for employment." The most recent ManpowerGroup talent shortage survey of more than 41,000 hiring managers in 42 countries and territories found that 38 percent of employers are having difficulty filling jobs. There is little agreement on what is causing this skills gap, what the potential solutions are, and whether the skills gap is even a real thing. Most of the executives I speak with acknowledge that the skills gap is real. Perhaps what makes this even more challenging is that we aren't sure what the jobs of the future will be or when they will be here. Consider that by the time most people graduate from college, the skills and the acquired knowledge are mostly rendered obsolete. This means that organizations are looking to hire employees for jobs that don't yet exist. Not only do we have a skills gap, but we also have a skills uncertainty. The number one thing that potential and current employees can do to succeed in this type of environment is to learn how to learn. Master the ability to learn new things regularly and apply the things that you learn to new and current situations and scenarios.

3. Changing Demographics

According to a report by Robert I. Lerman and Stefanie R. Schmidt, "An Overview of Economic, Social, and Demographic Trends Affecting the U.S. Labor Market: BLS (Bureau of Labor Statistics)," projections imply that over the next decade, 40 million people will enter the workforce, about 25 million will leave the workforce, and 109 million will remain.

Millennials are already the largest demographic, surpassing baby boomers in 2016. By 2020, they are expected to comprise 50 percent of the workforce, and by 2025 they are expected to be 75 percent of the workforce. We see gen Z (the generation after the millennials) creeping into the workplace as well, and they currently comprise over 25 million people in the United States. The labor participation rate in the United States appears to be gradually yet consistently shrinking. This changing mix of demographics brings new values, attitudes, expectations, and ways of working. Organizations have always had to adapt to new generations entering the workforce, but the overall sense is that previous adaptations were gradual and have now become accelerated.

4. Changing Face of Talent Competition

In the past, organizations competed on levels: skills, employee seniority, or location. This meant that if you lived in San Francisco, you would compete with other organizations for talent in the area; if you were Coca-Cola, you would compete with Pepsi, Ford with Toyota, Boeing with Airbus, or McDonald's with Burger King. Today, with the exception of certain specialized skills and roles, everyone is competing with everyone. Coca-Cola is competing with Toyota and McDonald's is competing with Airbus. Organizations are also competing on a global scale (see globalization) in a world facing skills shortages and changes in traditional employment and business models. This competition also extends to the gig economy (a labor market characterized by the prevalence of short-term contracts as opposed to permanent jobs). Talented individuals might decide to drive for Uber or join an online freelance marketplace instead of working for you.

5. Psychology (and Sociology)

Past and many current employee experiences are influenced by concepts of team building, motivation, performance, and success based on decades-old studies by psychologists and sociologists. Organizations are now taking these pursuits more seriously as they try to truly create environments where people want to show up to work. This is no longer just a challenge that an organization can overcome with perks, higher pay, or gimmicks. The business world is turning to the social scientists to help it understand why and how people tick. According to the U.S. Bureau of Labor Statistics, industrial organizational psychology is one of the fastest-growing professions. These scientists are influencing how we hire and recruit people, design office spaces, lead and manage, and even build and run our HR departments. Organizations such as Johnson &

Johnson work with teams of psychologists for these purposes. This also speaks to the trend toward focusing on longer-term organizational design instead of shorter-term engagement programs.

6. Technolgy Acceleration

The proliferation of mobile devices with global connectivity allows us to work anywhere and anytime. Videoconferencing and internal social networks allow us to communicate and collaborate without any boundaries. On-demand platforms, such as Catalant, Upwork, and Kaggle, allow organizations to quickly scale their workforce up or down while being able to access top talent anywhere in the world. Big data (and its analysis) is allowing us to gain new insight into how we work, why we work, and what we can do to drive performance, experience, and engagement. Robots and automation are predicted to replace many jobs, leaving a questionable future of employment. This is why discussions around universal basic income (UBI) are becoming prevalent. The idea is that if AI and automation replace humans, giving everyone a guaranteed regular income solves the financial burden of unemployment. UBI is a widely contested topic that has many questions that need to be answered.

The Internet promises to create a connected world that along with artificial intelligence will yield more productivity, efficiency, and abundance. Virtual and augmented reality will change the way we interact with physical and virtual worlds by combining and overlaying the two. The list goes on and on. Technology is not only enabling us to work more effectively, but it's also creating new ways of working in addition to creating new jobs and eliminating many older ones. Technology will increasingly affect every organization.

Before various technologies can be scaled and adopted, many other things must be considered. Futurists use a framework abbreviated as STEEPLE (social, technological, economic, environmental, political, legal, and ethical). Technology is just one of the seven aspects to be considered. Consider the autonomous vehicle. There is little doubt that the technology exists today to produce a fully functioning self-driving car. How long will it take for us to see this at scale and how long before these vehicles will displace all the human drivers? Insurance, infrastructure, rules and regulations, ownership, security, production, and so on must be considered. What about the comfort level of people getting into an autonomous vehicle or the ethical challenges that can be faced? For example, how does a self-driving car decide between an unavoidable accident where it will either risk the life of the passenger or of a bystander? Technology is a powerful disruptor but it must be placed in the context of factors to scale and have an impact.

7. People Analytics Gain Importance

A core foundation for creating employee experiences is people analytics. Ranjan Dutta is the director of people analytics at Pricewaterhouse-Coopers. He leads a team of hundreds of leaders who work with organizations around the world on their people analytics strategies. He believes that organizations have three things that essentially make up their business: money, material, and people. Another company can replicate your business model, the goods you produce, or the services you offer. The one thing that cannot be copied is your people. People are your greatest competitive advantage. So how do organizations get the very best out of their people? People analytics give organizations the data and the insight they need to make people-related decisions. People analytics also empower organizations to test ideas and run experiments. According to Ranjan, marketing has gone through this evolution. Decades ago marketing wasn't data-driven. It was based on ideas and intuition. Today marketing is based on data. Organizations are doing customer segmentation, journey mapping, and competitor analysis, and they are measuring and testing every aspect of how people interact with brands and their products. Amazon tests its home page many times a day. The home page I see may be different from the home page you see. Amazon uses data to make decisions about what content their visitors should see.

The concept of scientific management was once based on the idea of using metrics and measurement to improve how employees work. Employees were literally timed with stopwatches to shave seconds off their tasks. Today HR organizations—and others—are staffed with data scientists and analysts to help make sense of all the data they have on their employees and to figure out what other data can be collected. This is a new and emerging area of practice. Many large organizations have yet to build advanced capabilities around it, but they are all planning to. Organizations today have lots of data about their employees, including salary, tenure, satisfaction, ratings and reviews, performance, and much more. The trouble is that few organizations have a way of putting all of this information together to understand their employees. Ultimately, organizations will need to become their own research firm. Prasad Setty, vice president of people analytics and compensation at Google, says, "All people decisions at Google are based on data and analytics."

8. Transparancy

If you were to rewind the clock 10 to 15 years ago and you worked for an organization that wasn't treating people well, what could you do? There wasn't much transparency in the workplace, and employees didn't have much of a voice. This means that most organizations could treat employees however they wanted. These organizations had cash, and they had brand power that translated into being able to attract the best talent. Brand power today isn't what it used to be. You don't automatically want to work for a company like Starbucks, Disney, or Ford just because of the name. These organizations have to try harder to get the people they need and want. Today's world is very different. Not only do we see enormous business turbulence, competition, and rapid pace of change, but also employees have a voice and they are using it! Hundreds of websites rank organizations on everything from being a best place to work to being a diverse organization to offering great flexibility to having an environment with the least amount of stress. Combine this with social media sites and transparent career sites like Glassdoor, and the world can and will know everything about your organization without speaking with anyone who works there. This includes salary information, benefits packages, what your corporate culture is like, questions asked during the interview process, and so forth. When most people go shopping at a big-box retailer, they already know what they want and how much they should pay for it. That's because they have already done the research and know exactly what they want. This same logic applies to the world of people and organizations.

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