

# Four Groups Quarterly Update

Leadership, Intangibles and Talent

Q3 2010



## Fixing HR

Welcome to the Q3 Quarterly Update for 2010. After the Summer lull, we have seen some thought provoking articles surrounding intangibles, HR, innovation and leadership. In this issue we'll also explore the following themes:

- Compensation and Motivation
- The HR Conundrum
- Relationships
- Culture
- Talent

Articles are included from the likes of AT&T, the Financial Times, Hay Group, Hewlett Packard, Science Magazine, Wharton Business School and Zappos.com.

### Compensation and Motivation

In the past few issues, the role of the HR function has not been given much attention. We'll try to rectify matters this issue and revisit this much discussed issue in light of some current thinking on organisational development.

As we will see, in many ways, the future of HR can be seen to be bound up with many of the new ideas surrounding organisational development. Whether HR practitioners are in a position to influence matters however, is another question entirely.

Before we get on to the HR discussion, we are seeing a growing number of articles confirming what the likes of Dan Pink and Dan Ariely have been talking about in previous issues, namely the impact of traditional compensation policies on performance and motivation.

Furthermore, we are seeing the role of compensation being held up as a barrier to many of the things that organisations actually want to achieve. For example, in a blog post Jeffrey Phillips<sup>1</sup>, looks at how traditional compensation structures, particularly in large organisations can be seen as a barrier to innovation:

"The reason that compensation is such an insidious barrier to innovation is that we all share it and it's not polite to talk about. No one wants to focus on compensation since it can be such a headache to revise and restructure, but there's little doubt it is a serious impediment to innovation. Unlike some of the other barriers that can be overcome - few resources, few dollars, few insights - compensation affects everyone and it is a personal barrier as well as a corporate barrier. It's hard to rally people round the innovation

---

<sup>1</sup> <http://www.fourgroups.com/link/?180>

flag when they are looking over their shoulder wondering about how the innovation work will affect their compensation.”

“I think that when we strip away all of the other innovation constraints and blockades, we’re going to find a very small but very powerful disincentive to innovate, buried in how we compensate our teams.”

There is another interesting take on the role of group interaction on innovation in an article from Wharton<sup>2</sup>. In this example it is interesting that the authors pick up on the often negative impact of managers on the innovation process:

“People like having a process because they understand that it’s fair. In a typical brainstorming meeting, it’s not fair and everybody knows it. The boss is always right.”

I think that this complements the idea that compensation can have a negative impact on innovation and also change. Current compensation models clearly have the effect of creating a hierarchy of ideas and built in bias towards certain people’s ideas.

Coming back to the role compensation has on engagement, another piece<sup>3</sup> on HR Vendor News touches a perspective that seems to be picking up more traction:

“It is the non-financial rewards — as opposed to the financial rewards — that are viewed as having more impact on employee engagement,” said Tom McMullen, North American Practice Leader for Hay Group. “Quality of work, career development, organization climate and work-life balance all have a greater perceived impact on employee engagement than financial rewards such as base salaries, benefits and monetary incentives.”

This is particularly interesting quote coming from an executive at the Hay Group, a consultancy offering compensation and benefits services. In particular Dan Ariely has been particularly critical of such organisations<sup>4</sup>:

“The biggest curse in compensation are compensation consulting firms that do nothing but benchmark compensation against companies, which may or may not be useful comparisons. They know nothing about the science” says Prof Ariely. “They’re just perpetuating the misery.”

Compensation consultancies have long been favourites of HR directors looking to bring some impartial analysis to the table. However, Ariely has a point when he argues that there is no evidence for the effectiveness of comparing compensation and benefits policies at different organisations. When comparing benefits, a one-size fits all approach to people issues definitely does not work.

---

<sup>2</sup> <http://www.fourgroups.com/link/?181>

<sup>3</sup> <http://www.fourgroups.com/link/?182>

---

<sup>4</sup> <http://www.fourgroups.com/link/?183>

If HR wants greater influence, focus on the unique, maximise your expertise and solve important and complex problems. Above all get away from a one size fits all approach.

### **The HR Conundrum**

What is the future for HR? In the next few paragraphs I will set out a few thoughts that have coalesced around a number of recent articles and surveys. Many commentators continue to argue for a strategic role at the top table. However, there is very little sign of this happening. The main problem in my view is that current thinking states that gaining such influence is done through providing evidence of a ROI for the HR Department.

For too long HR has laboured under the belief that if it can somehow conjour up tangible performance figures, it's future as a strategic influence on the organisation will be guaranteed.

A recent HR Magazine article by Chris Roebuck highlights the ongoing search for hard numbers to back up the continuing existence of the HR function<sup>5</sup>:

"How many HR functions have presented a clear case to their FD on the financial value they are likely to be adding? How many have identified specific initiatives that have delivered specific value to improve service to end users or customers?"

---

<sup>5</sup> <http://www.fourgroups.com/link/?184>

In seeking to show value, the result is that HR practitioners have been taking a macro view of the organisation, striving to provide a similar service to the organisation as the finance department in terms of crunching numbers and applying a uniform approach to their areas of responsibility, hiring, firing, talent etc.

Without doubt, analytics are here to stay and are likely to play an increasingly important role in organisational planning and development. For example, Cathy Missildine-Martin has a blog post<sup>6</sup> about a recent HR Magazine article by Dave Zielinski<sup>7</sup> that looks at the composition of Google's HR team:

" 1/3 of the HR team have HR backgrounds and bring expertise in employee relations along with other specialist expertise like benefits and compensation.

1/3 of the HR team has little or no HR background and come from strategic consulting firms or internally from Google's sales and engineering departments. These individuals are embedded in the business as consultants.

1/3 of the HR team are the quant jocks. They are statisticians, PhD's in finance and organizational psychology. Their job is organizational analytics especially the predictive kind."

There are a couple of interesting

---

<sup>6</sup> <http://www.fourgroups.com/link/?185>

<sup>7</sup> <http://www.fourgroups.com/link/?186>

things, firstly that 1/3 of the HR team has little or no HR background. This emphasises the fundamental need for a commercial understanding of the business. Secondly, the analytics are supplied by specialists in esoteric and complex areas such as cognitive heuristics. I was particularly interested in the emphasis on predictive analytics. This flies in the face of the traditional dashboard type information gathered and processed by the HR department. Unfortunately most HR departments don't have the budget, infrastructure or data required to appoint such specialists.

A further example of the role analytics are here to stay and that advances in technology and creative thinking are bringing new insight into organisational performance are highlighted in a blog post by Gautam Ghosh <sup>8</sup>:

"Many companies favor job candidates with stellar academic records from prestigious schools—but AT&T and Google have established through quantitative analysis that a demonstrated ability to take initiative is a far better predictor of high performance on the job."

However, no matter how smart you are, the use of such analytics is unlikely to move HR up the corporate totem pole. Furthermore, the majority of HR professionals lack the necessary skills to drive this forward. Analytics are here to stay, but only as an offshoot of the HR function.

---

<sup>8</sup> <http://www.fourgroups.com/link/?187>

A question we keep coming back to is, is there an argument to be had that the way to get a strategic role is to give up the macro, organisational wide view and instead concentrate on micro issues? Alternatively, by giving up the quest to show ROI, can HR instead make itself indispensable?

### **Relationships**

Let's start at the top. How can HR best help the CEO? I think that HR's standing in the eyes of most of the current generation of CEOs is so low that any thoughts of a key strategic role is more wishful thinking than imminent reality.

Instead, by focusing on three areas: relationships, culture and talent, but in new, more innovative ways, HR can potentially make a significant day to day impact on the CEO and other senior executives.

Presuming the average CEO has between 8 and 12 direct reports, dealing with these relationships must take up a considerable amount of time and effort. These relationships, their dynamics and productivity are likely to play a key role on the CEO's perception of their own and the organisation's performance. Even as an organisation's leader, it is impossible to separate your own day to day experiences and take a global view of the organisation. For example, overall performance may be good but one or two of the CEO's relationships with direct reports may be suffering.

By providing the CEO with the information and understanding to

optimise their relationships and collaboration with those closest to them tools such as our own [4G](#) methodology apply directly to this area, it is possible to make a significant contribution to senior level communication.

To support this, there is an interesting article from McKinsey Quarterly<sup>9</sup> that emphasises the need for all managers to work at their relationship management and awareness of those around them:

“Bosses matter. They matter because more than 95 percent of all people in the workforce have bosses, are bosses, or both. They matter because they set the tone for their followers and organizations. And they matter because many studies show that for more than 75 percent of employees, dealing with their immediate boss is the most stressful part of the job.”

“The best bosses work doggedly to stay in tune with this relentless attention and use it to their advantage. They are self-absorbed, but not for selfish reasons. On the contrary, they know that the success of their people and organizations depends on maintaining an accurate view of how others construe their moods and moves - and responding with rapid, effective adjustments.”

Theoretically, HR is well placed to influence this and by systematically addressing the way each manager engages and conducts their relationships with subordinates, gains

<sup>9</sup> <http://www.fourgroups.com/link/?188>

to performance and collaboration are achieved.

It is important to emphasise that this approach should not be confined to senior executives. Arguably, helping all managers improve their own relationships is the most effective use of the HR function. In a blog post<sup>10</sup>, Meredith Wright cites an interesting quote from Robert Hogan:

“People don’t quit their job, they quit their boss.”

### **Culture**

Coming back to the HR Magazine article by Chris Roebuck cited above<sup>11</sup>, he uses the military as an example of an organisation that has been able to function without HR.

“Many quote the Armed Forces who are able to do such amazing tasks and succeed without almost any HR function at all save a minimal pay and record keeping function. How can this possibly work? Should there not be HR business partners running round in uniform at the front line? One reason it works is because there is total clarity of role around who does what with people and the line managers, i.e. officers and NCOs, take full responsibility for their people unlike some non Forces line managers.”

I believe a second area for HR to make itself indispensable is around facilitating the understanding and development of organisational culture.

<sup>10</sup> <http://www.fourgroups.com/link/?189>

<sup>11</sup> <http://www.fourgroups.com/link/?190>

In other words providing that clarity around the role and values of the organisation.

In another post, Gautam Ghosh<sup>12</sup> cites Zappos.com CEO Tony Hsieh and his book, *Delivering Happiness*<sup>13</sup>. By placing culture at the heart of an organisation's values, alignment and consistency are easily achieved. Surely this is a job for HR?

"Tony's belief is that the culture of the organization is the biggest brand it has, and that value drives the way Zappos treats its people and lets them take decisions. The culture is tied to the core competence of the organization which is Customer Service."

What Hsieh is arguing is not new. The technology website Gizmodo recently republished a 1960 speech by Hewlett Packard founder Bill Hewlett.

"I think many people assume, wrongly, that a company exists simply to make money. While this is an important result of a company's existence, we have to go deeper and find the real reasons for our being. As we investigate this, we inevitably come to the conclusion that a group of people get together and exist as an institution that we call a company so they are able to accomplish something collectively which they could not accomplish separately."

"We must realize that supervision is not a job of giving orders; it is a job of

---

<sup>12</sup> <http://www.fourgroups.com/link/?191>  
<sup>13</sup> <http://www.fourgroups.com/link/?192>

providing the opportunity for people to use their capabilities efficiently and effectively. I don't mean you are not to give orders. I mean that what you are trying to get is something else."

"Our first obligation, which is self-evident from my previous remarks, is to let people know they are doing something worthwhile. We must provide a means of letting our employees know they have done a good job. You as supervisors must convey this to your groups. Don't just give orders. Provide the opportunity for your people to do something important."

This very much ties in with Vineet Nayar's book we featured in the last issue<sup>14</sup>.

I think we are only just starting to appreciate the scope that culture impacts an organisation. A good article in *Strategy + Business*<sup>15</sup> discusses a study on the role that culture plays on product development:

"They found that companies introducing a steady stream of incrementally improved products typically have a different strategic focus than companies such as Apple that are known for developing novel products."

This is interesting because it implies that culture is at the heart of everything an organisation does, right through to the type of products and

---

<sup>14</sup> <http://www.fourgroups.com/link/?193>  
<sup>15</sup> <http://www.fourgroups.com/link/?194>

services offered. In another interesting piece in Strategy + Business<sup>16</sup>, Stephen Shapiro has a go at equating culture to personality, an interesting approach and something that could have potential when it comes to defining and comparing culture.

“The personality of a company impacts the people they hire and the methods they use to motivate and retain employees. People who don’t fit the mold, never join or eventually leave. The result? More of the same.”

I think this is a very example of one of the reasons why change is so difficult. This theme is carried on with a couple of good pieces<sup>17</sup> and <sup>18</sup> about the difficulty of change. Interestingly, both articles focus on the human factor in terms of project failure:

“Fear makes change intensely personal. Don’t forget, change scares most people: they fear for their jobs, they worry about their families, they wonder what will happen to their careers. When fear kicks in, that big corporate change can become intensely personal. When people are afraid, they literally can’t hear as well.”

“Only full disclosure and truthfulness allows for quick course corrections. empower the team and encourage them to take calculated risks without fear of penalization.”

---

16 <http://www.fourgroups.com/link/?195>

17 <http://www.fourgroups.com/link/?196>

18 <http://www.fourgroups.com/link/?197>

So where does HR fit in to the culture equation. I think that coming back to the military analogy is important. And I think that this is where it gets really interesting. As we know in the military, the culture is so clear and deeply ingrained that managers or officers in this case, are able to effectively communicate and ensure that this culture becomes deeply ingrained in the minds of new recruits.

The important thing to remember is that culture is not uniform across the military per se. Instead we find that culture changes across regiments, batallions, ships, squadron etc. This is an extremely powerful and useful phenomenon that helps instill values and identity. However, it also governs how communication with outside or external bodies is conducted.

I think this applies to organisations as well and this is where HR should get involved. Again, we need to drop the organisation-wide macro view and concentrate on local culture and identity. Within organisations you find distinct cultural identities in individual business units and departments. The trouble is that people fail to appreciate these cultural differences and the impact they have on communication and collaboration.

The role of HR should be to help individual managers understand and appreciate not only the cultural values within their own business unit but also how this will impact on interaction and communication with other business units.

I think by definition this is an element of HR that should have a limited shelf life. In a provocative blog post, John Sumser sums up this up<sup>19</sup>. Clearly, if HR can execute this in a meaningful manner, it becomes self-perpetuating as it is in the armed forces.

“A jaundiced eye notices that HR is a catch all for the cats and dogs that no other function wants. Providing the glue that holds employees to the organization is the best description that can be mustered. As the need for that glue evaporates, one wonders about the relevance of the department.”

### **Talent**

A third way for HR to make itself indispensable is through a more sophisticated and considered approach to talent management. Again, we are not talking about talent management in the traditional sense. Instead by focusing on social networks and connectivity, HR can play a key role at the very heart of the business.

The problem with the current approach is discussed in the Zielinski piece we have already highlighted<sup>20</sup> and features comments from Laszlo Bock, vice president of global people operations at Google:

“HR is still essentially doing talent reviews the same way they were done 40 years ago, and doing

compensation the way it was done 20 years ago.”

A further critique of “we focus on getting the smartest people” approach is featured in a Wired article<sup>21</sup> which discusses the role of individual intelligence on group performance:

“Their analysis, published Sept. 30 in Science, found several characteristics linked to group performance — and none involved individual intelligence. What mattered instead was the social sensitivity of individual members, the proportion of women (who tend to be more sensitive) in each group, and a balanced participation of conversation.”

On a similar theme, another piece of research appearing in Strategy + Business<sup>22</sup> suggested that:

“hiring too many high-status employees dampened effectiveness, the authors found. Moreover, companies with high-level expertise tended to fare worse with superstars in tow than did more run-of-the-mill outfits.”

The alternative is that HR can play a key role in fostering experimentation, creating networks, identifying the key influencers, mapping change etc.

This means adopting a new and in many ways experimental approach to talent. A couple of interesting articles have tapped into this idea and present some new ideas that may hold the key

---

19 <http://www.fourgroups.com/link/?198>

20 <http://www.fourgroups.com/link/?199>

21 <http://www.fourgroups.com/link/?200>

22 <http://www.fourgroups.com/link/?201>

to improved performance. By moving the focus away from identifying and developing talented individuals, the focal point should be on groups and networks.

For example, there is an interesting blog post from Stowe Boyd<sup>23</sup>, where he discusses some recent research from Maksim Kitsak at Boston University:

“The importance of hubs may have been overstated” say Kitsak and pals.

In contrast to common belief, the most influential spreaders in a social network do not correspond to the best connected people or to the most central people” At first glance this seems somewhat counter-intuitive but on reflection it makes perfect sense. Kitsak and co point out that there are various scenarios in which well connected hubs have little influence over the spread of information. “For example, if a hub exists at the end of a branch at the periphery of a network, it will have a minimal impact in the spreading process through the core of the network.”

“By contrast, “a less connected person who is strategically placed in the core of the network will have a significant effect that leads to dissemination through a large fraction of the population.””

This is an interesting idea and has clear implications for change management, communication and collaboration. At the same time, the

---

<sup>23</sup> <http://www.fourgroups.com/link/?202>

identification of such people who are strategically best placed in the network is not always the most straightforward challenge.

“The subtle, dark-matter mystery of social networks is that influence is oblique and not easily determined by the sorts of tools we have today.”

## Conclusion

Dropping the pretence that HR can deliver an audited contribution to the business like other departments is a huge step. However, by focusing on the micro rather than macro, it becomes easy to identify areas where HR can make a significant contribution. Above all, what is implied in all of the above is that each organisation requires it’s own unique solutions and approach. Unfortunately, this is where the role of experimentation and failure comes in to play. Traditionally, something that HR has struggled with.

If I was from Mars, it would strike me as obvious that the department that can contribute to overcoming these people-based obstacles is HR. However, I’m not from Mars and have been reading the FT recently, and in this case I’ll leave the final word to Dan Ariely<sup>24</sup>:

“There is no worse place to try to do experiments than human resources,” he said. “The first thing on their mind when they hear the word ‘experiment’ is lawsuits.”

---

<sup>24</sup> <http://www.fourgroups.com/link/?203>

## Written by

Michael Folkman, Director  
michael.folkman@fourgroups.com

## About Four Groups

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

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

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

© Four Groups Ltd.

All rights reserved. No part of this document may be reproduced without written permission from Four Groups Ltd

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

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

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

