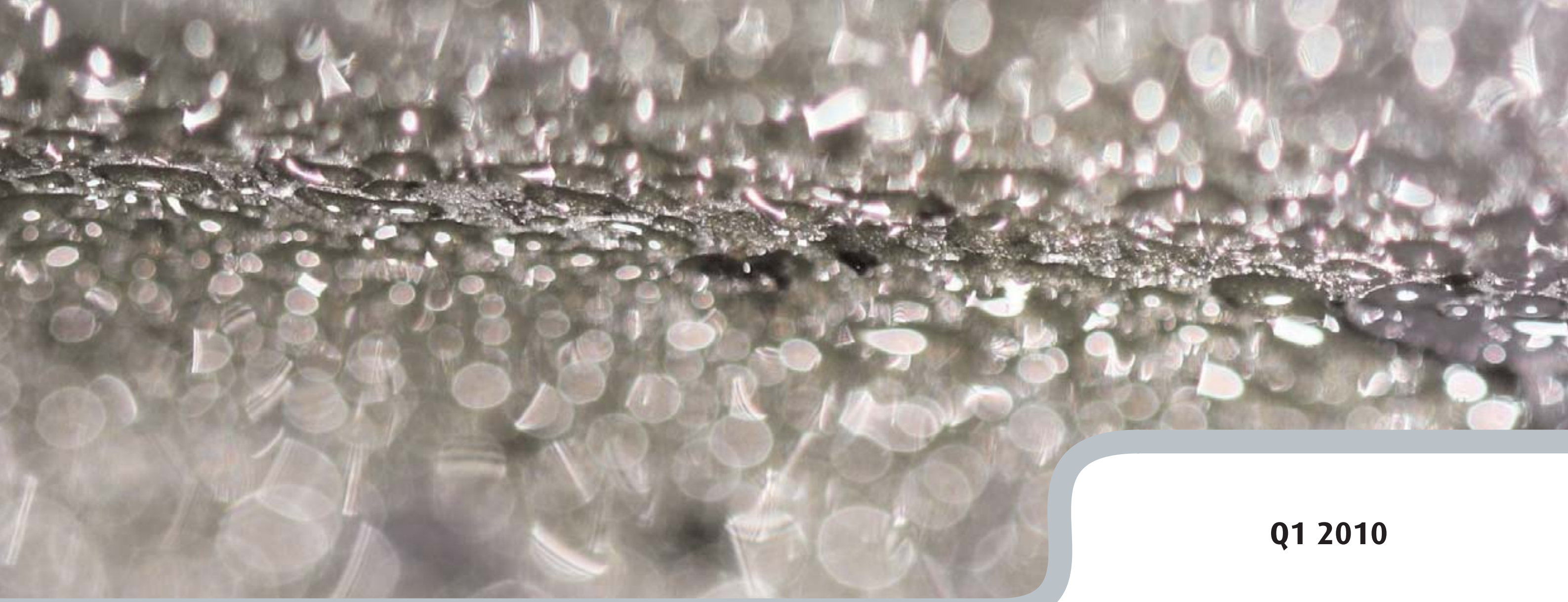

**Q1 2010**

*Linking Behaviour to Bottom Line Performance*

# Leadership, Intangibles & Talent Q1 2010

Welcome to the first update for 2010. In the spirit of new beginnings, in this issue we will look at how the debate around organisational performance is widening. We'll also look at how after 18 months of economic chaos, the fundamentals of organisational behaviour and what everyone has taken for granted about motivation and engagement could have played a key role in recent events. We'll also touch on the following themes;

- **Mergers, Acquisitions and Human Capital**
- **Motivation and Engagement**
- **Myths surrounding Top Talent**
- **New Ways to Engage via Social Network Analysis**
- **Limits of Understanding around Managerial Behaviour**
- **Passion and Purpose**
- **Innovation Constraints**
- **Managing Tacit Knowledge**

Articles are included from the likes of Deliotte, Gary Hamel, Henry Minzberg, HR Magazine, Karen Stephenson, McKinsey and Strategy + Business.

As regular readers will be aware, over the past 12 months we have been highlighting those writers, commentators, bloggers and academics from a range of disciplines who have consistently questioned the ways organisations manage their people. This covers topics from engagement, motivation and talent. Undoubtedly the global recession has brought these issues into sharp focus, however there are few indicators that organisations are actively re-assessing their approach to their interaction with their employees.

Many of the topics covered in this review are the issues that we are coming across at Four Groups. In particular our methodology, 4G, represents a new approach to:

- Boosting engagement and motivation
- Optimising performance via networks and relationships
- M&A Integration
- A new approach to management through new technology and organisational understanding

These are all key issues currently facing organisations and we are always keen to show how our approach can help deliver tangible results. Please contact us if you are interested in learning more about 4G.

These will also be topics familiar to regular readers, however, as with the old adage, if you shout loudly enough and long enough, people will begin to take notice. There have been some signs that this debate is emerging from the online muddle of internet chatter and may in time reach a more mainstream audience. Certainly, we are starting to see more consensus emerging from a variety of sources.

**Mergers, Acquisitions and Human Capital**

I'm going to kick off this update with a brief look at some recent articles focusing on M&A. I think this topic is important because in many ways poor M&A integration is a microcosm of many of the problems that can emerge from dealing with human capital issues. With M&A transactions, everything is accelerated and the spotlight quickly highlights any failures in communication, cultural understanding or purpose within the organisation. Whilst many organisations pride themselves on the slickness of their management of deal flow, whether an acquisition actually achieves it's original aims is often overlooked and this failure throws into sharp relief some of the dislocations and lack of cultural and organisational awareness that can seriously erode value.

On the other hand, mastery of M&A integration on a systematic basis would seem to imply the following:

• Clear goals articulated by the leadership
• Strategic input and collaboration from all areas
• Ability to combine strategy and execution seamlessly
• Clear understanding of culture both within the organisation and the target
• Efficient communication channels
• Management that is able to engage at all levels

These are all issues which are being focused on in wider organisational discussions but have particular resonance when looking to integrate newly acquired organisations.

**Tag Cloud**

engagement executives hr human
innovation interesting issues key
knowledge managers motivation
networks organisations particular
people performance senior social talent
understanding

Unsurprisingly, recent articles looking at this subject have focused on the human capital side of M&A integration. All the empirical evidence indicates that this is the area where value is either created or destroyed. An article in HR Magazine[1] draws on a recent report from Hewitt Associates[2]. Pointing to an increase in deal activity in 2010, the key to M&A success lies in the ability to manage the human capital side of the deal:

*"Stephan Vamos, European leader of Hewitt's Corporate Transaction and Transformation practice, said: "As we examine the reasons why companies aren't achieving their M&A goals, it's not surprising that the inadequate management of leadership and talent issues is at the core. Put simply, poor human capital management can be a true deal-breaker."*

Given the historically high number and frequency of these transactions, there is little sign that organisations have got a grip on these human capital issues. Over at Deloitte[3], there are a number of articles discussing the failings of organisations to effectively manage all aspects of the people side of the M&A process, from due diligence through to integration. Perhaps because it is seen as a process that organisations have found this so difficult. Instead, acquires should maybe look to take a more bespoke approach to their acquisition.

Taking a more flexible and tailored approach to each transaction is the focus of an article over at the McKinsey Quarterly[4]. The authors advocate the use of small and agile M&A teams to screen and transact deals. For larger corporations, a big M&A team capable of filtering and transacting a high deal volume has been the norm. However, by using smaller, permanent M&A specialists, a more flexible project-driven approach is required, bringing in specific expertise as and when required:

*"If the essentials for the governance and execution of M&A are in place, many companies can carry it out successfully with a small, experienced team that pulls in resources project by project. Companies with large, standing M&A teams typically have a formalized approach to M&A decision making - an approach different from the one for standard investment decisions."*

*"Large corporate M&A teams can work*

*through deals more quickly, but they can sometimes get so focused on finding the next one that they lose a clear connection to the strategies of the business units. We have observed organizations where even business unit managers directly affected by a deal come to the table relatively late."*

In a similar vein, back at Deloitte[5] there is an interesting article on the selection of the M&A leadership team. Again, highlighting the intangible nature of such a process and the fact that organisations have tended to focus on the process rather than the people:

*"Leadership – and leadership selection – is not an exact science and can't be reduced to facts and formulas. Subjective factors such as personality and chemistry are ultimately what will drive behavior and results."*

Clearly, if you are going to write about M&A integration, human capital issues are the ones to cover, these are the issues that are most poorly defined, where there is little consensus and hard, tangible data is so hard to uncover.

Given recent technological advances and understanding of key intangible issues such as social networks and culture, there is an opportunity to take a fresh look at this topic and develop a new taxonomy of M&A integration to enable each organisation develop it's own approach. What is certain however is that people are complex and represent the greatest challenge to the vast majority of M&A transactions.

**Motivation and Engagement**

Moving on from M&A to broader organisational issues, the continued focus of many commentators is motivation and engagement. Indeed there is evidence that this discussion is emerging in the broader media. For example in January, the Times[6] ran a piece challenging the orthodox perception that bonuses are an integral and essential part of corporate life. This article draws on many themes we have covered in previous issues, in particular Dan Pink's arguments[7] about the lack of any hard evidence of the effect of cash bonuses on boosting performance:

*"Companies succeed through teamwork but bonuses propound the idea that success is all down to individuals; the scramble for taking credit and claiming your bonus destroys co-operation between colleagues; and, critically, bonuses distract employees, managers and companies from the basic truth that the best work is done by people who enjoy what they do."*

This article also cites Henry Mintzberg's recent arguments about how bonuses in the form of cash and stock options have had a universally negative impact on the global financial system.

Perhaps most interestingly, this article references a new book[8] by Boris Groysberg questioning the assumption about the portability of talent in the financial services industry. In his research Groysberg has found:

*"Exceptional performance is far less portable than is widely believed," he says. "We found that mobile stars [bankers who leave one company for another] experienced an immediate degradation in performance that persisted for at least five years. Thus their exceptional performance at their prior employer appears to have been more firm-specific than is generally appreciated."*

Clearly, this has significant implications across a wide range of organisational activities from recruitment to talent management. This also implies that talent and success is a far more complex and subtle equation than is commonly assumed. Even if Groysberg's research stacks up, I can't help but feel that things will continue as they have been. Ultimately as we will see below, there are far too many vested interests to challenge the status quo in such a fundamental fashion.

**Myths surrounding Top Talent**

So how have we ended up here? Should employers get so concerned when employees threaten to leave if their demands are not met? In the UK, this has particular resonance with the state owned banks RBS and Lloyds both paying out large bonuses on the premise of needing to retain key talent. Maybe as Groysberg states, it is time to call the bluff on the myth of top talent.

Not only do we have significant vested interests in keeping up the current attitudes to pay and bonuses. The cycle also becomes self-perpetuating as a new generation of managers ascend the corporate ladder. In an interesting blog posting[9] at Flip Chart Fairy Tales, Rick points towards a culture of executive entitlement as a cause of current economic difficulties. Drawing on the BBC as an example, these arguments could easily apply to other sectors or organisations. One particular example is the willingness of executives to sanction large pay increases for their direct reports:

*"Eventually I came to realise that executives liked to raise the salaries of their direct reports because it helped them to justify their own pay increases. Their bosses would then collude with them for the same reasons and so on up the management chain. Underpinning this attitude is a sense of entitlement."*

Like Groysberg Rick argues that it is time to call peoples bluff over salary or bonus demands:

*"The BBC could get away with paying its people a lot less and most of them wouldn't leave. Many executives, if they spend long enough in the large monopolistic bureaucracies, come to almost believe the justification for their own high salaries and perks. They and their peers become caught up in a self-reinforcing myth in which they convince themselves that they really could command even bigger salaries elsewhere and that they really are so crucial to the organisation that it must pay ever more exorbitant amounts to retain them. For the truth is that few senior executives are as talented or as irreplaceable as they like to think they are."*

So, if bonuses are not an effective incentive to improve performance and retaining key talent is not as important as organisations believe, what steps can enterprises take to motivate and engage their people to greater productivity?

**New Ways to Engage via Social Network Analysis**

Regular readers will recognise that we are coming back to issues around engagement and the lack of it in current organisations. If there is going to be any sustained change in the way that organisations manage their people, what strategies or actions are going to replace the current incentive culture? Again, we are starting to see an element of consensus emerge. Previous issues have shown us that ideas of progress and achievement are key to this equation. A HBS article[10] reinforces this idea:

*"On days when workers have the sense they're making headway in their jobs, or when they receive support that helps them overcome obstacles, their emotions are most positive, and their drive to succeed is at its peak. On days when they feel they are spinning their wheels or encountering roadblocks to meaningful accomplishment, their moods and motivation are lowest."*

This has positive and negative implications for the majority of organisations, on the plus side as the authors note:

*"As a manager of people, you should regard this as very good news: The key to motivation turns out to be largely within your control."*

However, this presupposes that managers are capable of systematically developing the necessary skills and desire to fully tap into this potential for increased engagement.

What other ideas are out there that can help organisations manage and engage their people? In addition to a more holistic approach by managers, technological innovation also holds the key to potential ways that organisations can better manage their people. One area that holds much potential is Social Network Analysis

Over at Joshua Letourneau's blog there is a very interesting interview[11] with Dr. Karen Stephenson, where she discusses her research into Social Network Analysis. Although recorded in 2008, there are a number of very interesting points about the importance of understanding networks in being able to influence organisational performance.

In particular, Dr. Stephenson challenges another widely held organisational belief. Namely the relevance of the organisational chart as a reflection of an organisation's structure. Arguing that these charts fail to take into account the key social networks that underpin organisational culture and performance. It is only now however that we have tools to begin to understand and identify key networks.

Even so, there are few organisations that have a clear understanding of all the networks and connections that enable them to get things done. This has particular implications for any organisational change programme where embarking on such a programme without a clear understanding of social networks is like starting a journey with half a map. This is a key view shared by Four Groups and underpins our work with 4G.

**Limits of Understanding around Managerial Behaviour**

In recent issues, we have heavily featured some articles from Henry Mintzberg. This quarter he has given an interview to Strategy + Business[12] that dovetails nicely with the above findings. Here Mintzberg points to failures of management training as a root cause of poor organisational performance and in particular the paucity of research relating to managerial behaviour:

*"I think it's amazing how few people are actively researching managerial work - empirical studies of what managers do - as their main focus. Many people are concerned with organizational issues, but because they don't actually study what managers do, they lack insight into the essence of organizations."*

According to Mintzberg, this lack of tangible research is compounded by an unwillingness to act on it even where it does exist:

*"Where there is reliable management research, it doesn't always get recognized or translated into practice. For example, we know that the most effective companies and organizations are those that embody the importance of being communities. People in these companies are committed and respected, and when you unleash that kind of energy, it's quite remarkable. But most conventional management practice and education has gone in completely the opposite direction. It's becoming more mercenary, more individualistic, less community oriented, and less nuanced."*

In this interview Mintzberg advocates a learning process that instead of focusing on the teacher/student dynamic, instead encourages learning by getting students to draw on their own experience in dealing with problems or issues.

**Passion and Purpose**

Mintzberg's comments are consistent with a number of other articles published this quarter. Indeed one thing that has been noticeable has been the number of articles calling for managers and organisations to take a more holistic or passionate approach to their work. In a couple of blog posts over at the Wall Street Journal[13] Gary Hamel raises some interesting points about purpose.

*"I believe that long-lasting success, both personal and corporate, stems from an allegiance to the sublime and the majestic. Viktor Frankl, the Austrian neurologist, held a similar view, which he expressed forcefully in 'Man's Search for Meaning' "For success, like happiness, cannot be pursued; it must ensue, and it only does so as the unintended consequence of one's personal dedication to a cause greater than oneself..."*

*"But I know this customers, investors, taxpayers and policymakers believe there's a hole in the soul of business. The only way for managers to change this fact, and regain the moral high ground, is to embrace what Socrates called the good, the just and the beautiful."*

In a further post[14], provocatively titled Management's Dirty Little Secret, Hamel asks:

*"why are we complacent when confronted with data that suggest most managers are more likely to douse the flames of employee enthusiasm than fan them, and are more likely to frustrate extraordinary accomplishment than to foster it?"*

Clearly warming to his subject Hamel goes on to say:

*"Given that, we have to wave goodbye to the 'knowledge economy' and say hello to the 'creative economy'. What matters today is how fast a company can generate new insights and build new knowledge - of the sort that enhances customer value. To escape the curse of commoditization, a company has to be a game-changer, and that requires employees who are proactive, inventive and zealous. Problem is, you can't command people to be enthusiastic, creative and passionate."*

**Innovation Constraints**

Hamel touches on the role managers have in encouraging innovation. In an interesting blog post[15], Jeffrey Phillips, discusses the innate difficulties in managing this process. In particular he highlights five key constraints preventing senior management from effectively promoting innovation. These are:

1. Most senior executives are not innovators themselves
2. Most senior executives are guardians

or keepers of the corporate culture
3. Most executives are focused on short-term targets and goals
4. Many innovation programmes are focused on encouraging senior executives to generate new ideas rather than the people who have most contact with customers
5. The size of many organisations means that articulating a clear innovation strategy becomes very difficult to co-ordinate

I think that there are some interesting ideas here, certainly the first and fourth points tie in very explicitly with an emerging consensus on innovation that we have highlighted in previous issues. In particular:

*"The ultimate fulfilment of the Peter Principle is that the higher you climb in executive management, the further removed you are from what an average customer really wants. This makes dictating the kinds of innovation necessary very difficult and results in vague requests for innovation."*

This is one of the complaints that Mintzberg has been particularly vocal about in recent months. So where does this place the role of senior management in innovation? Again, we keep coming back to ideas of managers being facilitators rather than directors:

*"They can impact the culture through rewards and recognition. They can understand their value in creating clear strategic goals and communicating those effectively. They can introduce tools, techniques and methodologies to help the innovators accomplish their goals. They can introduce a common language and approach for innovation as tools for innovators to use. They can encourage networking and interaction with other firms which will spawn many more new ideas. They can introduce new tools to gain customer insight. They can create new funding mechanisms beyond an annual plan. In essence, they can become the cheerleaders, funders and toolbringers, which is really all they can do effectively."*

Quite a thought! The lack of understanding about innovation is also the subject of a Business Week article[16]. In this article, Stefan Lindegaard reaches many of the same conclusions as Phillips.

*"The problem is that top executives reward middle managers for getting stuff done and executing flawlessly. This can be counter-intuitive to innovating. But top executives are often too far away from the action to understand how this compensation structure makes it harder for innovation leaders to succeed."*

Clearly too much emphasis is currently placed on senior executives coming up with the killer ideas, as Robin Hanson states[17]:

*"Knowledge isn't generated by lone geniuses who magically produce brilliant new ideas in their gigantic brains."*

This is expanded on in a HBR piece[18], the authors advocate moving away from a traditional Knowledge Management model that focuses on the management of existing knowledge:

*"We know we're better off engaging in the interactions and collaborations that create new knowledge about how to get things done. What we need are new approaches to creating knowledge, ones that take advantage of the new digital infrastructure's ability to lower the interaction costs among us all - ones that mobilize big, diverse groups of participants to innovate and create new value."*

Clearly technology has an important role to play here in terms of facilitating the generation of new knowledge and innovation. However, managers still have a key role to play in encouraging or identifying areas of potential collaboration.

In addition to failing to cultivate effective innovation, senior executives come under additional criticism for being in a state of denial[19]. In a new book, Richard S. Tedlow documents the blinkered approach to pressing organisational issues that spiraled into massive corporate failure:

*"Denial is falling into a cognitive Bermuda Triangle. Everything is clear, yet you lose your bearings."*

In a familiar refrain, Tedlow goes on to say:

*"It is often middle managers who are best acquainted with new realities..... Unfortunately, when middle managers actually raise these problems - especially those that contradict the firm's prevailing assumptions and conventional wisdom - they are often ignored,*

*or worse."*

**Managing Tacit Knowledge**

This quarter I'll try to keep the HR focus down a little, not least because there is a paucity of new or interesting articles on the subject. There have been a couple of notable exceptions. First up is this provocative blog post[20], Joshua Letourneau advocates a fundamental refocusing of the HR function. Here he quotes a surprising anecdotal figure:

*"Less than 1.5% of all Social Network Analysis (SNA) projects I'm aware of have been HR-purchased or HR-centric. This greatly surprises me because I believe SNA, or the ability to map the invisible networks that exist parallel to the formal hierarchy (i.e. the way work 'really' gets done), should empower HR more than any other business unit."*

In an echo of articles already cited above:

*"As the shift from transactions to tacit knowledge transfer has happened, HR has not updated its focus and structure. Since we're now aware that Human-Networks innovate, create value, etc., as opposed to purely individuals (i.e. "resources"), has the time come for HR to be now known as HN ("Human Networks")?"*

I think that this is key to the future of HR, however there are few signs that people are acknowledging the reality facing them. As Letourneau states:

*"Networks drive performance, not individuals."*

Another blog post questioning long-held assumptions was written by Steve Hearsum[21]. In this blog post he questions the efficacy of 360 degree performance appraisals:

*"As humans, we are constantly assessing how social encounters either enhance or diminish our status... performance reviews often provoke a threat response; people being reviewed feel that the exercise itself encroaches on their status. This makes 360-degree reviews, unless extremely participative and well-designed, ineffective at generating positive behavioural change."*

I think this critique is valid for many aspects of performance appraisal.

Given that an organisation is fundamentally a relational system, it is only by looking at things such as motivation that we can get to grips with what is actually happening.

Interestingly, the subject of motivation and how traditional performance appraisals can foster negativity also came in for criticism from Dan Pink at the end of last year[22].

That's about it for this quarter. As always any comments and feedback are appreciated and if you are interested in discussing any of these topics in more detail, please get in touch.

**Footnotes and References**

1. http://fourgroups.com/link/?123

2. http://fourgroups.com/link/?124

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**About Four Groups**

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

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

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

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